

The Utility of Equity Theory in Enhancing Organizational Effectiveness

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Abstract

This paper will focus on examining equity theory, its propositions and underlying assumptions. I will examine the research on equity theory in regard to pay since it is assumed to be one of the essential and most important outcomes. A critique will follow to determine the falsibility and utility of the theory. Finally, there would be summary and recommendations for future research. The research question is to explore the effect pay outcome has on other outcome variables such as motivation, job satisfaction, and performance. The second research question is whether or not comparison other, communication, or status in occupation has an influence on the perceived fairness of pay. This paper will provide human resource professionals with a broad understanding of the importance of pay in motivating employees and in improving their productivity. It appears that pay is a major factor in perceived equity therefore; attention needs to be given to this concept.

Keywords: Equity theory, organizational effectiveness, and Jordan

Introduction

What motivates people to work? According to equity theory, it is the perception of equitability and inequity. Equity theory focuses on two sides: the input and the outcome. An employee compares his or her job's inputs with an outcomes ratio. If the employee perceives inequality, he or she he will act to correct the inequity. The employee may lower productivity or reduce the quality of their job. Many times inequities can lead to an increase in absenteeism and even resignation of an organization (Greenberg, 1999). Equity theory deals with human motives and it should have wide applications in understanding organizational behavior. HRD needs to take equity theory under serious consideration when dealing with people whether in cases of administering simple tasks like pay, promotions, and recognition or in cases of training, improvements, and development. Equity theory will help HRD explain employee's behavior and provide them with the possible factors that might decrease efficiency and performance.

Equity theory has received more attention lately from human resource professionals especially regarding the fairness of outcomes. Equity, or more precisely, inequity is a major concern of industry, labor, and government. The fairness of exchange between employees and employer is not usually perceived by the employees as simply as an economic matter, an element of relative justice is involved. Equity theory could be applied to any social situation in which an exchange takes place (e.g., between

a man and his wife, between football team mates, and between employee and his employer). When two people exchange something, there is a possibility that one or both will feel that the exchange was inequitable. This is the case frequently when an individual exchanges his services for pay (Adams, 1963).

Human resource education has a variety of administrative responsibilities for a number of outcomes that employees receive as part of their exchange with their employers. Wages, salaries, promotions, bonuses, and disciplinary actions are part of these outcomes that HRM administer. HRM plays a major role in employees' perceived fairness of outcomes (Folger & Cropanzano, 1994). Therefore, equity theory will be helpful to management in perceiving what motivates employees (Berkowitz, 1965). In equity theory, motivation is affected by the individual perception of being treated fairly in comparison to others. Equity is defined as justice, inequity-injustice. Inequity exists for an individual when he or she perceives an imbalance in the ratio between outcomes (reward for work) and inputs (efforts at work) as other workers outputs and incomes (Miner, 1980).

Adams (1965) defines inequity as "inequity exists for person whenever he perceives that the ratio of his outcomes to inputs and the ratio of others outcomes to others inputs are unequal". It follows that inequity results not only when a person is under-benefited but also when he is over-benefited. An important issue of the equity theory is the emphasis on the individual perception of what exists, even though it may not be real. The perception of inequity is based on comparing the individual's ratio with the comparison others ratio (e.g., when an employee in another state receives \$4000 more for the same job, no inequity is experienced, but a coworker in the same company with the same abilities and skills, if he or she receives a pay raise, inequity may be experienced). The result of inequity is tension. If an individual experiences a deficit, an anger results, if he or she receives more than others, a feeling of guilt develops. Individuals will use several strategies to cope with tension and guilt that will be discussed later (Miner, 1980).

The next few pages will shed light on the major propositions and assumptions of equity theory, the antecedents of inequity and the strategies used to reduce inequity when it exists. I also attempt to identify through literature the importance of pay outcomes as a precedent and requirement for improved performance, job satisfaction, motivation, and some will also explore the effect comparison other, communication, and occupation status have in perceived fairness of pay. A critique of equity theory and its major constructs will be examined. Finally, summary and recommendations for future research will follow.

Antecedents of Inequity

According to Adams (1965) the focus of the theory is on the exchange relationship where individuals give something and expect something in return. What the individual gives is called inputs. On the other side of the exchange, is what the individual receives, called outcomes. The third variable in addition to inputs and outcomes is called the reference person or group. This reference group can be a coworker, relative, neighbor, or group of coworkers. It may even be the person himself in another job or another social role. Table 1 above lists these inputs and outcomes in details.

Table 1: Inputs and Outcomes of Equity Theory

Inputs	Outcomes
Education, intelligence, experience, training Skills, seniority, age, sex, ethnic background Social status, job effort, personal appearance, health, spouse's characteristics.	Pay, intrinsic rewards, satisfying supervision Seniority benefits, fringe benefits, job status Status symbols, job perquisites, poor working conditions, monotony, fate, uncertainty.

Table 1 has showed what inputs and outcomes are expected. If an individual perceives any of them as an input then it is an input and hence he or she expects a just return for it. The problem arises if only the employee views a particular input and not the employer. In this case, felt injustice is

experienced for example an employer may base his promotion on seniority rather than promotion; the employee “feels” that injustice has been done (Adams, 1965).

Whether a social exchange is considered equitable or inequitable depends upon the individual’s perception of the relationship between their inputs and outcomes (Adams, 1963, 1965; Adams and Freedman, 1976; Walster, Berscheid and Walster, 1973). A state of perceived equity occurs when an individual perceives his or her inputs balanced with his or her outcomes and when he or she also perceives others inputs are balanced with others outcomes (Pritchard, 1969). Equity theory assumes further that even an individual’s inputs and outcomes do not balance, he or she still feels equitable only when the other is perceived as not having his or her inputs and outcomes in balance (Pritchard, 1969).

Adams (1965) proposed that a state of equity exists only when

$Op/Ip = Oa/Ia$. Where O= the sum of all outcomes, I= the sum of all inputs, P=person, A=other.

Thus, a state of inequity results if $Op/Ip > Oa/Ia$ or $Op/Ip < Oa/Ia$.

Equity theory proposed that when a state of inequity is perceived, the individual would experience a state of distress (Walster, Berscheid & Walster, 1973). This distressing state will move individuals to take action to restore equity (Lerner, Miller & Holmes, 1973). The greater the inequity, the more distress individuals feel, and the harder they will try to restore equity (Adams, 1965).

Restoring equity is either actual or psychological. Actual restoration of equity refers to the behavior of the individuals who feel injustice to work less (decrease inputs), to demand a raise from their company (increase outputs) or destroy company equipment (decrease company outcome). Psychological restoration of equity refers to convincing one’s self that this inequitable relationship is somewhat equitable by distorting reality (Adams, 1965).

Adams (1965) also proposed “often, the recipient who is paid more than he deserves performs at a substantially higher level, either in terms of quality or quantity of his performance”. He also made the assumption that inequity results for people not only when they are relatively underpaid but also when they are overpaid. A person for example, will feel that inequity exists not only when his or her effort is high and his or her pay is low while others effort and pay is high, but also when his or her effort is low and his or her pay is high, while others effort and pay are low.

In interpersonal relationships, a person will try to maximize his or her outcomes (where outcome = reward - cost). Groups can maximize the probability of equitable behavior among members when they develop a system where resources are distributed equitably among members. A group also will reward members who behave equitably toward others and punish those who do not (Adams & Walster, 1973).

Consequences of Inequity

According to Adams (1965) felt injustice will lead to dissatisfaction, anger, and guilt. People will feel angry and dissatisfied when they are getting less of what they expect in comparison to what they input, and people also will feel guilty if they receive more than their worth. Adams calls this “guilt” when over-rewarded advantageous inequity whereas, calls “anger” reaction when under-rewarded (disadvantageous inequity). This anger is usually directed toward other people and institutions that caused inequity and sometimes it is self-directed where no other party is targeted for punishment or retaliation. Because of that Adams (1965) theorized that perceived inequity feels unpleasant and encourages people to move in the direction of reducing it, and the strength of motivation to do so will vary directly with the magnitude of inequity experienced. As a result Adams proposed several means called “means of inequity reduction”. These means are:

- 1) Person altering his inputs: in the case of felt inequity, a person may increase or decrease his inputs depending on whether the inequity is advantageous or disadvantageous. The individual might increase his inputs such as productivity and/or quality of work or might decrease. Factors like education and skill level are more easily altered but factors like sex, race, and ethnic background are not modifiable. There are two assumptions introduced by Adams: (a) the threshold for the perception of inequity is higher when person is over

rewarded than when he or she is under rewarded. (b) There is an assumption that a person is motivated to minimize his or her costs and maximize his gain. In the second assumption a person will move to reduce inequity in a way that will yield him or her the maximum outcomes.

- 2) Person altering his outcomes: a person may vary his outcome either by increasing or decreasing them depending on whether the equity is advantageous or disadvantageous. Either by increasing outcomes or decreasing inputs a person will reduce inequity.
- 3) Person distorting his inputs and outcomes cognitively: it is possible mentally to switch from one reference group or person to another, while still remaining physically in the same primary exchange relationship (Folger and Cropanzano, 1994). When an employee feels underpaid, a thought might come to mind that the amount of money he or she is making is more than his or her father made at this age or his or her peers in different industry, this process would be an example of changing the comparison object to reduce inequity. Some people might choose to leave their job.
- 4) Person leaving the field: an individual might quit his or her job, obtain a transfer, or experience higher absenteeism are common examples of people leaving the field in an employment situation.
- 5) Person acting on other: in the face of injustice a person may attempt to alter or cognitively distort others inputs and outcomes, or try to force others to leave the field. If a person has less experience than others, he or she may attempt to decrease those people inputs instead of increasing his or her inputs.
- 6) Person changing the object of his comparison: person may change “the comparison other” with whom he or she compares himself or herself when he or she experiences inequity and he or she and “comparison other” stands in an exchange relationship with a third party. This would reduce the severance of inequity. For example, when workers are doing the same job but their earnings are different, they may be satisfied with the situation because the person of comparison might have more education, skills, experience, and seniority (higher inputs). It is clear that comparisons are made on the basis of the quality of the outcome-input ratios of the comparer and comparison person and this comparison may be satisfying and judged to be not inequitable.
- 7) Choice among modes of inequity reduction: all previous methods are available to any person psychologically to choose from. Adams proposed some conditions that determine the modes by a person.
 - A Person will maximize positively the valence of outcomes.
 - B He or she minimizes increasing inputs that are effortful and costly to change.
 - C He or she will resist real and cognitive changes in inputs that are central to his self-concept and to his self-esteem.
 - D He or she will be more resistant to changing cognitions about his outcomes and inputs than to changing cognitions about others outcomes and inputs.

Means of inequity reduction were used as dependent variable; the production of inequity was used as an antecedent condition. for example, “a worker was underpaid” (Walster, Berscheid, & Walster, 1973). A thorough examination of equity theory was presented to provide a thorough theoretical and practical understanding of the theory. The following pages will examine in details the pay outcome variable and the different relationships that are connected to it.

Literature Review

Organizations are attempting to develop a work force that is self-managing and autonomous, a sense of justice becomes even more essential as the glue that holds the organization together and maintains teamwork (Cropanzano & Kacmar, 1995). The essential idea behind equity theory is that when individuals work for an organization they present certain inputs (e.g., abilities or job performance).

Based on what they input in, people expect to get something in return, for example when people input high performance they expect to get a high pay level (Cropanzano, 1993). Adams (1965) expressed this as a ratio of outcomes per inputs. The difficult thing for workers is to determine when a given ratio is fair. Adams argued that individuals determine fairness by comparing their ratio to the ratio of some comparison other; this allows someone to see if a reasonable amount were obtained.

Equity theory predicts that low rewards produce dissatisfaction; this would in turn motivate people to take action and reduce the discrepancy between their ratio and the ratio of the comparison other. For example, one might reduce inputs (lower performance), or if possible increase outcomes. According to Adams (1965) when a person is over rewarded he/she might experience guilt, shame, or remorse instead of anger or resentment. These emotions are negative and therefore should motivate individuals to move toward reducing the imbalance. Because individuals do not usually forego positive outcomes, people are generally likely to respond by increasing inputs. That is, they are expected to work harder.

For the purpose of this research paper an attempt would be to determine the effect pay would have on employees. Pay, in my opinion, is considered the most important outcome. Pay in the workplace is considered a potentially motivating force or learning device, and potentially rewarding outcome. Pay may gain in importance because it refers to decisions made by the employee as to how high and good his/her contribution to the organization will be. Pay is important to the extent it provides performance feedback (Thierry, 1992).

Living in the United States, a capitalistic society, money plays an important role in our daily life. People depend on pay to sustain themselves and survive. Equity theory deals with this issue as source of motivation (Rice, 1993). Employees realize that pay will lead to some security in living, recognition by peers, and status in his or her professional group. In other words pay is more important to the extent that it is seen as a way to realize more motives, even those employees who are dissatisfied with other factors in their job (e.g., working conditions), will accept more pay to compensate for that lack of satisfaction. According to Thierry (1992) pay will represent the following:

1. Salient motives: pay is often seen as the vehicle that leads to the satisfaction of a specific motive or goal. Pay is expected to provide more security, more status, less anxiety, and more recognition.
2. Relative position: pay may refer to the degree of progress in the employee's task performance relative to task goals set. Pay thus informs us about the effectiveness of performance behavior, it also provides more opportunity to correct one's course of action. Pay reflects how well someone's performance has been relative to others.
3. Control: pay may convey to an employee how effective he or she has been in affecting the behaviors of others.

Most of the research reviewed emphasized that underpayment inequity is associated with negative attitude and dissatisfaction. I found no research which actually emphasizes the effect of overpayment inequity. Management needs to be concerned mainly with pay equity since it is one of the most important outcomes for employees (Huseman & Hatfield, 1990) identified the top ten system outcomes and rated pay third after sense of accomplishment and doing meaningful work.

The concept most often examined in studies of equity theory is pay equity, the degree to which employees perceive their pay to be fair. Equity theory suggests that individuals may choose from one or more different referents in determining the equitableness of their pay. Among the most theoretically and empirically important referents are internal comparison with persons holding the same or different positions within the same organizations and external comparisons with persons similarly employed in other organizations. Employees may choose family members to measure how their pay meet their needs and compare it with the employee's own pay history. The selection of referents is a function of both the availability of information concerning certain referents and their attractiveness or relevance for the comparison. The choosing of referents is related also to its instrumentality in satisfying needs (Martin & Peterson, 1987). How is the reference group formed? In fact, in most organizations, individuals compare themselves with many reference groups throughout the organization and in the

external market. Employees are more likely to feel unfairly compensated if one reference group is more highly paid than they are, and based on that will move to adjust their inputs (Levine, 1993).

Referent Comparison and Pay

Due to underpayment inequity, individuals may follow different approaches to restore equity one of which redefines their reference group (Watson, Storey, Wynarczyk, Keasey, & Short, 1996). Data were collected from 721 employees (553 employees and 168 managers) to investigate the role of reference groups outside and inside the organization within the framework of equity theory. Attitudes toward pay were used as the base for comparison. The result of the study indicated the following:

1. The author suggested that some people might choose one reference group while others may choose more than one reference group.
2. When using both comparisons, employees were more satisfied with just using one comparison.
3. Both comparisons were associated with overall pay satisfaction.
4. Propensity to stay or leave the organization was significantly related with the outside comparison.

Therefore, the findings indicate that comparison to others outside and inside the organization contributes to pay satisfaction for employees (Ronen, 1986). Goodman (1974) studied 214 managers in a single firm. The purpose of the study was to show the relationship between comparison with referents and pay satisfaction. He used three classes of referents (other, self, and system). "Other" represents someone in the same organization, in a different organization; it can also be friends or neighbors. "Self" refers to the input/outcome ratio from the past job. "System" refers to the contract between the employer and the employee. The employees when comparing themselves to referent other were the major determinant in their pay satisfaction (Goodman, 1974).

Summers and DeNisi (1990) retested the Goodman study but tested the study on a nationwide level. The study involved 1043 managers from all levels of restaurant chain. Sixty five percent (65%) reported have feelings underpaid and the majority (34.5%) used self as a comparison group. This study supports the hypothesis that comparison with referent (other, self, system) is a major determinant of pay satisfaction. This supports Adams equity theory that people tend to use a number of various referents simultaneously. Underpayment inequity in comparison to a series of referents (others in your job category at your company, your pay in previous jobs) was associated with lower pay satisfaction in a sample of restaurant managers (Summers & DeNisi, 1991).

Summers and Hendrix (1991) investigated how manager's perception of pay equity with respect to their three most important referents influenced the manager's performance and turnover intentions. Perceptions of pay equity had no impact on performance, but did have an indirect impact on turnover intentions that was mediated by a variety of attitudinal measures (e.g., job satisfaction, pay satisfaction). It appears that there is a focus on the comparison other in determining pay equity. Employees feel that pay differences based on performance differences are fair. The research suggests that in the event of equal pay, employees will feel underpaid when their comparison other is a poorer performer and will feel overpaid if their comparison other is a superior performer (Werner and Ones, 2000). The authors also proposed several hypotheses that address seniority in relation to pay. First, employees will feel that pay differences based on seniority differences are fair because it is assumed that seniority is related to high performance and higher productivity. Second, employees will feel underpaid when their comparison other has less seniority considering the pay is equal and will feel overpaid when their comparison other has more seniority. Third, in regard to gender, since there is a lot of stereotypes associated with gender, pay being equal, males will feel underpaid when their comparison other are females; females will feel overpaid when their comparison other are males (Werner and Ones, 2000). The authors also emphasized that these perceived inequities were less pronounced when the pay system was explained to the employees.

Job Satisfaction and Pay Equity

It is hypothesized that the impact of payment inequities on job satisfaction levels will be related to the individual's anticipated internal and external labor market opportunities. Employees who expect to remain in their job for the next three years will be motivated to cognitively adjust to payment inequities while those who have external labor market opportunities will have the least incentive to adjust in this manner (Watson et al, 1996).

Perry (1993) found a strong relationship between pay equity and job satisfaction. In his study, African-Americans whose income was more than \$2000 below the national average reported the lowest level of job satisfaction, and African-Americans whose income was more than \$3000 above the national average reported the highest job satisfaction. However, Hodgson and Maclachlan (1996) found that underpayments or overpayments lowered intrinsic motivation. In their study of Australian employees, whose pay was either more or less than other people in their occupation, reported less job satisfaction when compared to employees who were equitably paid.

Equity theory suggests that overpaid workers avoid any inequity reduction techniques that result in (a) negative consequences to self-esteem or physical well being or (b) devaluation of a good job outcome such as job satisfaction or monetary compensation. The preferred method is a psychological justification involving a higher valuation of one's job inputs as indicated by the results of the study (Perry, 1993). When employees are not satisfied with their job they react negatively. This is consistent with what Adams has predicted in which workers who feel inequitably underpaid may respond by raising their outcomes. In a study of a manufacturing plant setting, some employees were temporarily underpaid by receiving a pay cut without any explanation. While employees experienced a 15% reduction in pay, they reported feelings of underpayment and stole over twice as much compared to when they felt equitably paid. It is possible that the pay cut produced anger and frustration for employees, which motivated the act of theft. It is also possible that the act of theft was used as a mean to restore equity. On the other side, when employees were provided with direct and honest explanation, the feeling of underpayment inequity was reduced in comparison to the group who did not receive any explanation (Greenberg, 1990).

Berkowitz, Fraser, Treasure, and Cochren (1987) studied pay perceptions and satisfaction among a random sample of employed men. They found that the more the employees strongly believed their pay was fair; the more satisfied they were with their earnings. In fact pay equity was a strong predictor of pay satisfaction (Berkowitz et al, 1987). The idea that the perceived fairness of one's pay is a better predictor of pay satisfaction, then the absolute amount of pay received is in keeping with the evidence showing that the concept of pay fairness and pay satisfaction are strongly related (Scarpello, 1988).

According to equity theory people can readdress states of inequity cognitively, for instance, altering their beliefs about the outcomes they received from their jobs. Equity theory asserts that workers who are underpaid financially may be able to reestablish overall level of equity by convincing themselves that they are well compensated with respect to other outcomes. A study on 114 salaried clerical workers, whose pay was reduced, felt that they were inequitably underpaid. Their pay cut created an underpayment inequity. In this case the employees followed two approaches. First, enhanced the perceived importance of other outcomes (work environment). Second, exaggerate the perceived level of these outcomes needed to establish equity. This behavior equity theory calls cognitive distortion. This study showed that there was no reduction in the level of job satisfaction when a pay cut occurred. It further tells us that cognitive reevaluation of this situation will minimize the distressing effect of inequity (Greenberg, 1989).

Heneman's (1985) review showed that pay satisfaction affects on overall job satisfaction and has a big effect on behaviors such as turnover, absenteeism, and the effort exerted on the job. However, overpayment does not produce these results, usually underpayment does that consistently (Mowday, 1987).

Motivation and Pay

Dumville (1993) has also indicated a strong relationship to exist between pay satisfaction and motivation. Work motivation is viewed as an invisible and internal construct; it should result in satisfaction and performance. A study was conducted on players in a major league baseball team, in the year prior to their free agency. As predicted by equity theory, individuals who were under compensated choose to decrease their performance and had less motivation (Ambrose & Kulik, 1999).

Communication and Pay

From reviewing the literature it appears that when there is two-way communication between managers and employees, it will increase their satisfaction with their jobs and pay will not be an employee top priority. A study was conducted on ten corporate locations which found that when managers and employees have two-way communication, their perception of pay equity was higher than the other group where there was no communication. Even though both groups were paid almost the same as the first group, the first group felt that they were equitably paid while the second group had the perception that they were underpaid (Huseman & Hatfield, 1990).

Occupation and Pay

Recent research indicated that the type of occupation is a major basis for evaluating the fairness of pay. Employee's judgments of the fairness of their pay are a major determinant of their willingness to remain in the employing organization. When evaluating pay fairness, contribution should be the guiding principles of pay fairness evaluations (Dornstein, 1988). A study by Alves and Rossi (1978), which involved a sample of 522 American adults, dealt with judgments about fairness of earnings, revealed that there is a "substantial measure of social consensus concerning the normative frames of reference guiding pay fairness evaluations". Her study indicated that occupational prestige carries the greatest weight in the pay fairness judgments of occupations. People with high prestige occupations such as physicians would expect higher pay to reflect their social status and it was also found that employees would use the going rate of occupations as a basis of pay equity judgments (Alves & Rossi, 1978).

Performance and Pay

A study was conducted by Shaffer (1974) on a small firm with fifty employees who performed similar tasks and had similar pay. When one group was given additional pay than the other group, a feeling of inequity existed which in turn led to lower performance as a result of this feeling. This reaction is predicted by equity theory in which people tend to reduce their outcomes as one of the methods to restore equity (Shaffer, 1974). The literature also indicates a strong relationship between the pay and performance of top executives. Executive's incomes are a good representation of their company's performance such as profit, sales, shareholder wealth, stage of development, and industry.

Research on overpayment situations found that the performance of individuals have improved while in situations of underpayment the performance of individuals have decreased. The study also found that individual's perception of equitable pay may be affected by two demographic variables: current pay level and earnings potential (Carrell & Dittrich, 1978).

Theory Critique

Equity theory has a one major proposition which is the comparison of one's inputs and outcomes to others inputs and outcomes and as a result of this comparison one might experience equity or inequity. This proposition is very clear and parsimonious unlike many theories in the social science. Every one

can understand this theory since it has to deal with our feelings toward equity and justice. These are very important issues to humans and that is why people will be inclined to understand this theory more clearly (Rice, 1993). Researchers emphasized that theories should not be too broad or too narrow. Equity theory has achieved this limitation. Equity theory has focused on what motivates employees and describes that employees input something and expect something back in return. This equalization of relationship will tend to motivate employees to perform. The theory also emphasized two situations of inequity, which is the case of overreward and underreward and how humans tend to react in either situation.

Equity theory is considered to be one of the most valid frameworks to understand human attitudes and motivation (Miner, 1984). According to Miner (1980), equity theory has the following characteristics:

1. Prediction of performance: the evidence of research showed that both overreward and underreward will have an effect on performance, but the question that remained unanswered is for how long this effect will last before corrected by cognitive distortion. On balance the theory seems to predict performance at least for a short period of time.
2. Prediction of work satisfaction: the research done in this area gives strong support for equity theory. In over-reward situations guilt and dissatisfaction was experienced which led workers to increase inputs, and under-reward created anger and resentment, which led in many cases to turnover and absenteeism, and lowering inputs.
3. Construct validity: the central construct of the theory is equity motivation. Or perhaps two constructs involving guilt or shame reduction and anger reduction. The theory lacks precision in regard to what factors operate as inputs and what factors operate as outputs and under what circumstances.
4. Utility: able to predict performance and work satisfaction.
5. Falsibility: the problem of individual, who will respond to inequity stimulation and who will not. There is also a problem in regard to a comparison other, how it is chosen and why, how factors come to be viewed as inputs and outputs and why.

In the appendices there are two models, which represent equity theory, and clarify it. These models will allow us to see the relationships more clearly. The first model presents a clear relationship. When we compare ourselves to a referent other, the result is either equity or inequity. In the case of inequity a person will experience anger or guilt and this anger or guilt will motivate individuals to reduce inequity by following one of seven methods or a combination. This relationship is falsifiable; it is constructed in a way that can be refuted by researchers. Inequity may not lead to anger or guilt in some situations.

The draw back of equity theory is that it has not accounted for individual differences and for different cultures. More research needs to be conducted to further explore this relationship.

Equity theory has a lot of utility in it. It is generalizable to almost any relationship whether intimate, exploitative, or occupational. The second utility is that equity has many constructs and some of them are not measured, yet, this allows us to delete inapplicable constructs and variables instead of adding new constructs and variables to the theory. The third utility of equity theory is comprehensiveness.

Fourth, the theory is logical and it explains human behavior consistently. This is apparent in its use and consistency as we seen through research. Fifth, equity theory is unbounded by space or time. This means that it is applicable to any relationship which increases its generalizability. Sixth, all propositions of the theory have specified the cause and effect relationships. Seventh, the theory has construct validity. Constructs like pay satisfaction may lead to job satisfaction. Through studies these constructs have behaved the way they suppose to behave. Finally, we can say that equity theory is self-verifying since the nature of relationships is specified.

Equity theory proved to have a strong background through research. The research seemed consistent when examining underpayment situations in which employees lowering their performance when reacting to the underpayment however outcomes of overpayment research seemed inconsistent.

Equity theory could not predict what behavior is likely to be observed (lowering inputs, raising outcomes, or leaving the field). Adams mentioned that when someone feels underpaid he or she might either work less as a mean of altering a person's inputs to reduce inequity, or that person might work harder if he or she choose to cognitively distort the amount of his or her current inputs. The theory does not have a definite answer regarding when one of these two opposed responses will occur.

This theory provides anger as a retaliation method against social targets such as other individuals or the organization as a whole. The theory did not clarify the construct anger. This is a negative attitude against other individuals and organizations. Equity theory considers only the final distribution of rewards. The procedures, which generate that distribution, are not examined. These procedures are examined in a theory called procedural justice.

Summary/Recommendations

Adams proposed this theory in particular on how employees would behave in response to situations when they are treated less or more justly in comparison to others. The theory suggests that inequitable comparison will result in a state of tension, which will encourage employees to restore equity (e.g., increase or decrease work effort, quit their job). The research of equity theory examined how employees would behave in reaction to inequity (e.g., job satisfaction) as well as the kind of behavior that will result to compensate for the inequity such as theft.

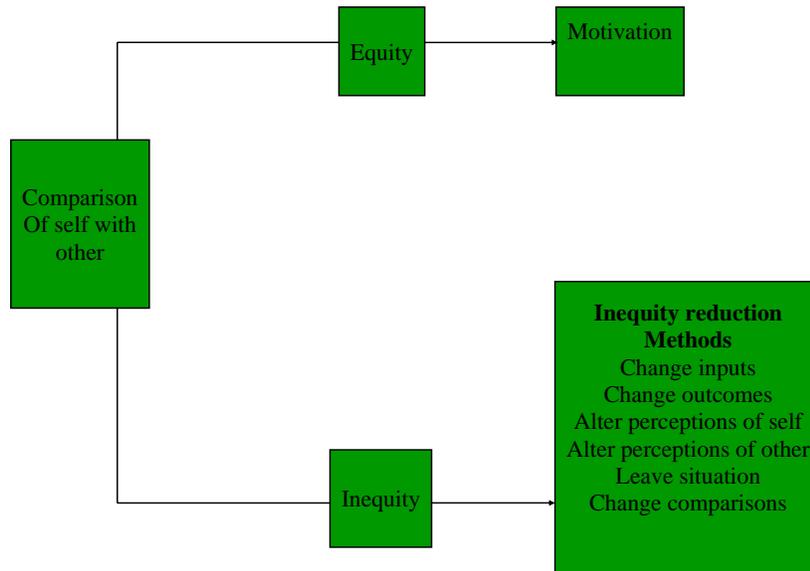
One of the reasons why justice in the workplace is so important is that employees need to feel that they have some control over their future with their employer. An unfair system is one in which has a lack of predictability, so that arbitrary decisions are made and employees fear victimization. Unfair systems undermine the employees believe that efforts will result in valid outcomes. Managers should be aware of the benefits of behaving toward subordinates in a manner perceived as fair. Managers should be concerned with how they treat their employees because employee's perceptions of that treatment could affect the level of citizenship behavior. Also, their understanding of equity theory and the different situations of under reward and over reward reactions and how it would affect on the organization such as strikes, grievances, lowering performance, theft, quitting...etc.

Employee theft is one of the important problems that organizations face today. The research revealed that theft is a predictable behavior in response to underpayment inequity and it is also possible to lower such behavior by the two-way communication with upper management that explains in an honest way the reason for pay cuts. Because of the importance of the pay factor and how it affects other factors such as motivation, performance, and job satisfaction, every single organization needs to pay close attention to pay when constructing its mission and goals. Employees in today's global society are the driving force of organizations that provide competitive advantage. This competitive advantage cannot be achieved without job satisfaction, motivation, and performance and pay is what drives these three forces.

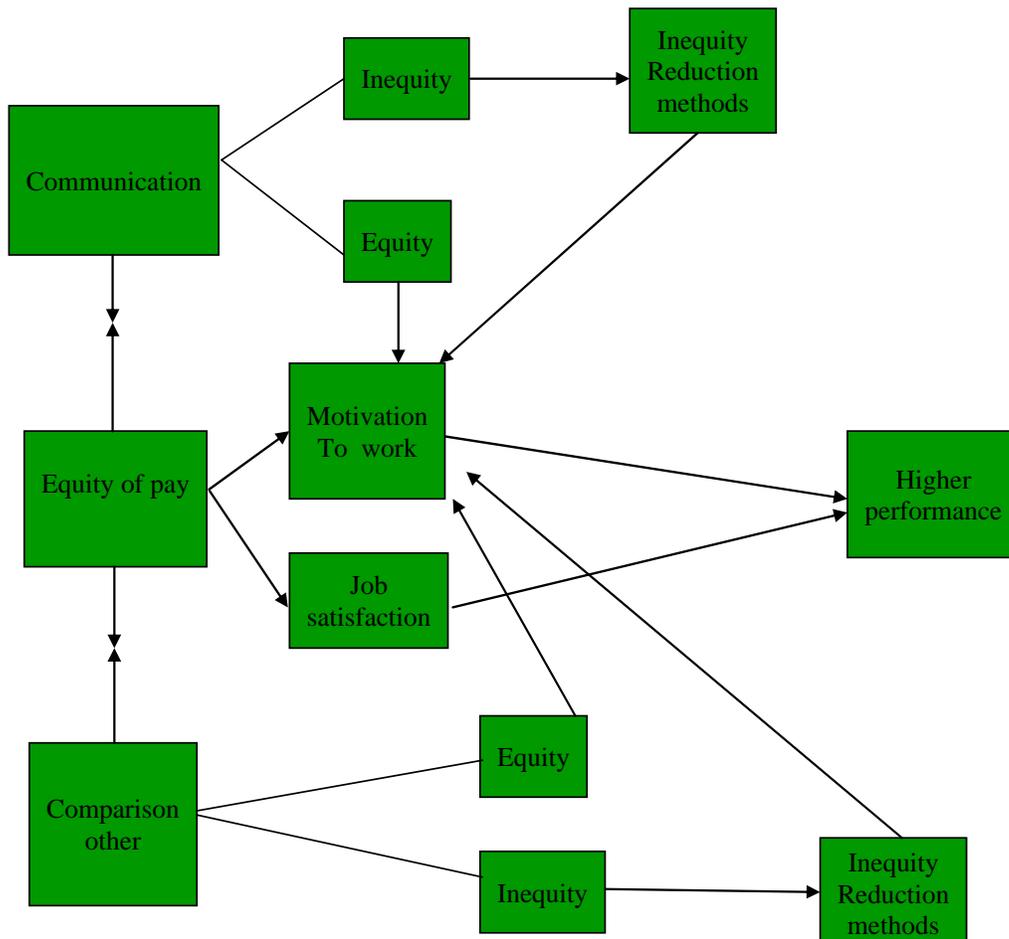
Human resource development should be very concerned with the pay factor and the kind of relationship it has with motivation, performance, and job satisfaction. Further studies need to be directed toward this relationship accounting for individual differences and different cultures.

Appendices

Equity theory



Equity theory and pay



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