

**Tools for Managing Relationship
Equity Theory: Pivotal Terms and Concepts**

What is Motivation?

Many contemporary authors have also defined the concept of motivation. Motivation has been defined as: the psychological process that gives behavior purpose and direction (Kreitner, 1995); a predisposition to behave in a purposive manner to achieve specific, unmet needs (Buford, Bedeian, & Lindner, 1995); an internal drive to satisfy an unsatisfied need (Higgins, 1994); and the will to achieve (Bedeian, 1993). For this paper, motivation is operationally defined as the inner force that drives individuals to accomplish personal and organizational goals. <http://www.joe.org/joe/1998june/rb3.html>

Why do we need motivated employees?

The Role of Motivation

Why do we need motivated employees? The answer is survival (Smith, 1994).

Motivated employees are needed in our rapidly changing workplaces.

Motivated employees help organizations survive. Motivated employees are more productive. To be effective, managers need to understand what motivates employees within the context of the roles they perform. Of all the functions a manager performs, motivating employees is arguably the most complex. This is due, in part, to the fact that what motivates employees changes constantly (Bowen & Radhakrishna, 1991). For example, research suggests that as employees' income increases, money becomes less of a motivator (Kovach, 1987). Also, as employees get older, interesting work becomes more of a motivator.

Process vs. Need-Based Theories of Motivation

Need-Based Theories

- **Reflect a content perspective.**
- **Try to list specific things that motivate behavior.**

Process-Based Theories

- **Focus on how motivated behavior occurs.**
- **Explain how people go about satisfying their needs.**

John Stacey Adams, workplace and behavioral psychologist, put forward his Equity Theory on job motivation in 1963. There are similarities with Charles Handy's extension and interpretation of previous simpler theories of Maslow, Herzberg and other pioneers of workplace psychology, in that the theory acknowledges that subtle and variable factors affect each individual's assessment and perception of their relationship with their work, and thereby their employer. Awareness and cognizance feature more strongly than in earlier models, as does the influence of colleagues and friends, etc, in forming cognizance, and in this particular model, 'a sense of what is fair and reasonable'

The Equity Theory of Motivation

Equity Theory

- Based on the relatively simple premise that people in organizations want to be treated fairly.

Equity

- The belief that we are being treated fairly in relation to others.

Inequity

- The belief that we are being treated unfairly in relation to others.

Adams's motivation theory, based on the comparison of perceived inputs to outputs.

Equitably rewarded

Inputs and outputs are perceived as being equal.

Under rewarded

Efforts to reduce inequity by trying to increase output (get a raise)

Reducing inputs (working less, absenteeism, etc.)

Rationalizing (creating an explanation for the inequity)

Changing other's inputs or outputs

Leaving

Changing the object of comparison.

Overrewarded

Increasing inputs (working more, longer hours, etc.)

Reducing output (taking a pay cut)

Rationalizing (I'm worth it)

Increasing other's outputs

Equity theory

people assess how fairly they have been treated according to two key factors

outcomes - various things the person receives on the job

inputs - contributions the person makes to the organization

people expect the outcomes they receive to be proportional to the inputs they provide

people also pay attention to the outcomes and inputs of others

Assessing equity

equity exists when the ratios are equal

assessments of equity are subjective perceptions or beliefs

Using equity theory can be difficult, because the employee's reference group is unknown as well as their view of inputs and outcomes. Recommendations are useful, however.

The supervisor should be aware the equity is based on perception, which may not be correct.

What are the major assumptions of equity theory?

- (1) perceived inequity creates tension in the individual
- (2) the amount of tension is proportional to the magnitude of the perceived inequity
- (3) the tension created in the individual will motivate him or her to reduce it
- (4) the strength of the motivation to reduce inequity is proportional to the perceived inequity

Exchange theories are based on two assumptions about human behavior..

there is an assumed similarity between the process through which individual evaluate their social relationships and their economic transactions in the market.

Contributions to the social relationship may be perceived as investments for which people expect some return (it is assumed that people do not enter into social relationships without some expectation that the time and resources they commit to them will be somehow be returned)

it is assumed that people demand fairness in their social interactions and that information about the perceived fairness is obtained by observation of what others get out of the relationship.

Where there is relative equality between outcomes and contributions of both parties to an exchange, satisfaction is likely to result. To summarize, individuals in social interactions behave in a manner similar to that posited for the "economic man" of classical economics. The assumption is that individuals are motivated to maximize their rewards and minimize their costs. Perception: Inputs Compared with Outputs The important consideration is that each person evaluates his or her outcomes and inputs by comparing them with those of others. The major components of exchange relationships are inputs and outcomes.

Inputs, like investments, are what a person puts into the relationship.

Outcomes are the things that result from the exchange.

Equity theory (see Adams, 1965; and Walter, Walster, and Berscheid, 1978) suggests that individuals evaluate the ratio of their inputs to outcomes for a given job in relation to other, referent employees. Inequity is assumed (or perceived) to exist if the ratios are not equal. As a result of the tension thus created by this inequity, employees are motivated to restore equity.

Outcomes or inputs may be altered (both objectively or psychologically); comparative referents (employees being compared) may be changed; or the employee may withdraw from the situation

The relative importance of the inputs and outputs is a matter of perception. Only I can really say how much value I place on whatever input I have in the exchange. My expectations with respect to output will depend on whatever value I have placed on my inputs, and this may have very little to do with any objective characteristics of the situation.

Equity Theory

Ratio Comparison*	Employee's Perception
$\frac{\text{Outcomes A}}{\text{Inputs A}} < \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (Under-Rewarded)
$\frac{\text{Outcomes A}}{\text{Inputs A}} = \frac{\text{Outcomes B}}{\text{Inputs B}}$	Equity
$\frac{\text{Outcomes A}}{\text{Inputs A}} > \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (Over-Rewarded)

**Where A is the employee, and B is a relevant other or referent.*

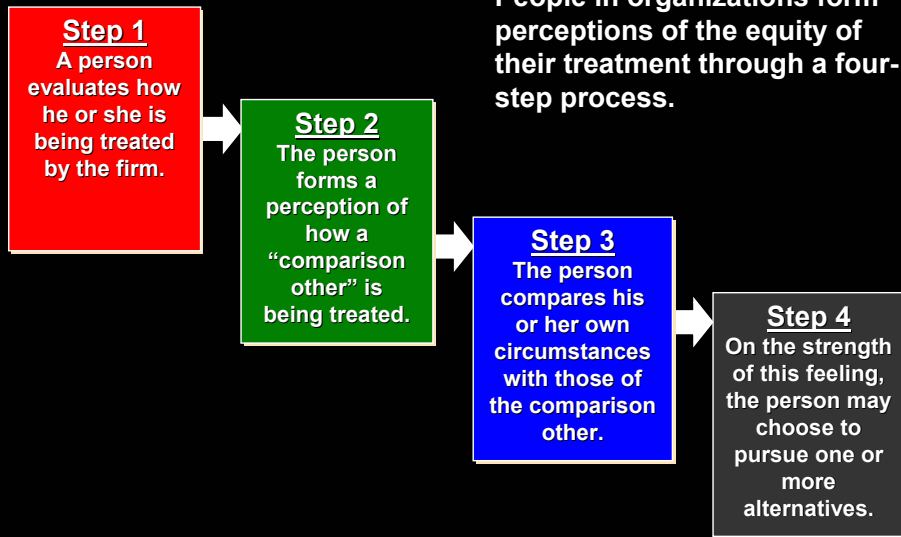
Workers compare their job inputs and outcomes with others. There are three possible perceptions: inequity due to being under-rewarded, equity, or inequity due to being over-rewarded. Equity theory proposes that inequity creates tension, and that this tension can cause an employee to seek fairness.

There are four referents that an employee can use:

- (1) **Self-inside:** an employee's experiences in a different position inside the organization.
- (2) **Self-outside:** an employee's experiences in a position outside of the organization.
- (3) **Other-inside:** an employee's perception of persons inside the organization.
- (4) **Other-outside:** an employee's perception of persons outside of the organization.

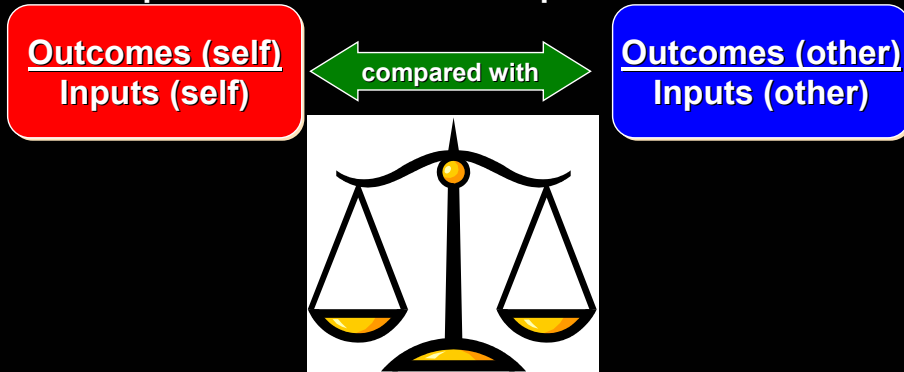
Workers who perceive an inequity will react in one of the six following ways: change inputs, change outcomes, distort perceptions of self, distort perceptions of others, choose a different referent, or leave the field.

Forming Equity Perceptions



The Equity Comparison Process

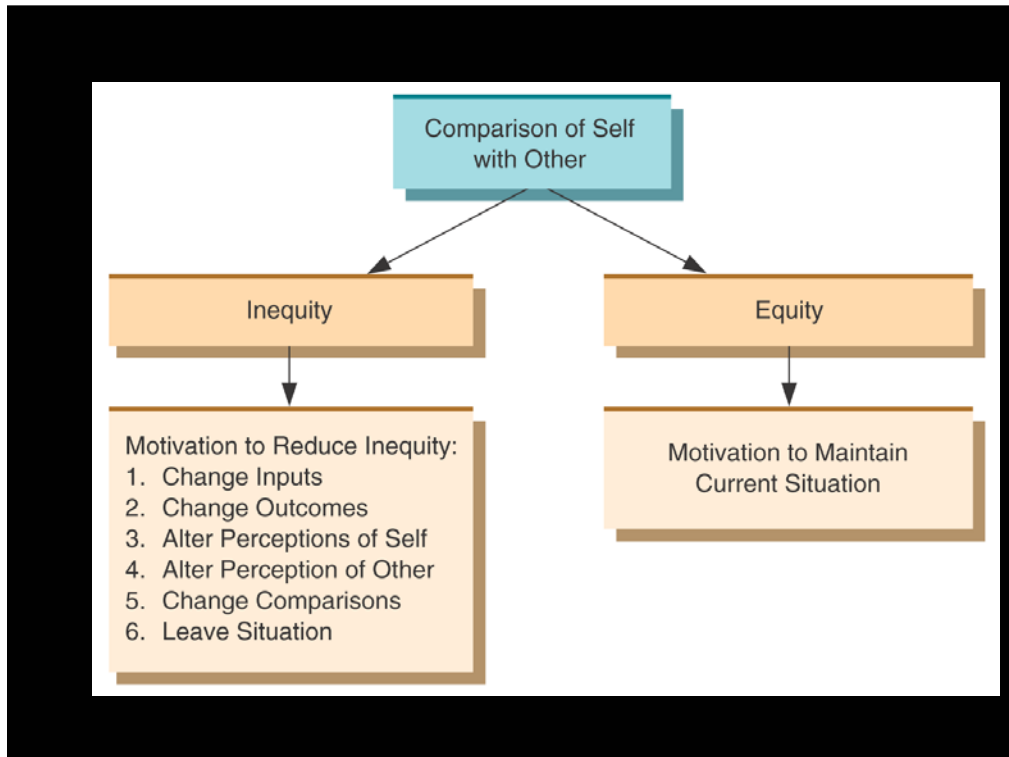
Equity theory describes the equity comparison process in terms of an input-to-outcome ratio.



Adams' Equity Theory calls for a fair balance to be struck between an employee's inputs (hard work, skill level, tolerance, enthusiasm, etc.) and an employee's outputs (salary, benefits, intangibles such as recognition, etc.). According to the theory, finding this fair balance serves to ensure a strong and productive relationship is achieved with the employee, with the overall result being contented, motivated employees. The Adams' Equity Theory is named for John Stacey Adams, a workplace and behavioral psychologist, who developed this job motivation theory in 1963. Much like many of the more prevalent theories of motivation (theories by Maslow's Hierarchy of Needs, Herzberg's Theory, etc.), the Adams' Equity Theory acknowledges that subtle and variable factors affect an employee's assessment and perception of their relationship with their work and their employer.

The theory is built-on the belief that employees become de-motivated, both in relation to their job and their employer, if they feel as though their inputs are greater than the outputs. Employees can be expected to respond to this in different ways, including de-motivation (generally to the extent the employee perceives the disparity between the inputs and the outputs exist), reduced effort, becoming disgruntled, or, in more extreme cases, perhaps even disruptive.

It is important to also consider the Adams' Equity Theory factors when striving to improve an employee's job satisfaction, motivation level, etc., and what can be done to promote higher levels of each. To do this, consider the balance or imbalance that currently exists between your employee's inputs and outputs, as follows:



Equity theory, in [Business](#) seeks to describe a relationship between employees [motivation](#) and their perception of being treated fairly. The theory suggests that employees seek to ascribe values to their inputs and outputs.

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The most obvious input that people have to offer is their time. Inputs also include:

Expertise Qualifications Experience Personal qualities such as drive, ambition, empathy or intelligence.

Outputs include:	Monetary compensation
Perquisites	Flexible working arrangements
Job Variety	Satisfaction of altruistic ambitions
	Power
Status	Equity

An employee will consider that he is treated fairly if he perceives the ratio of his inputs to his outputs to be equivalent to those around him. Thus it would be acceptable for a more senior colleague to receive higher compensation, since the value of his experience is higher.

Input

Quality of Work Performed
Job knowledge
Cooperation with others
Self-improvement
Quantity

Adaptability-versatility
Intelligence
Experience
Education
Attitude
Initiative

Output

Job security
Pay
Possibility of growth
Interpersonal relations with

- Supervisor
- Peers

Amount of work
Responsibility Advancement
Recognition
Status
Adequate working conditions

What does equity theory suggest that managers should do?

Equity theory has some implications for managers:

People measure the totals of their inputs and outputs. This means a working mother may accept lower monetary compensation in return for more flexible working hours.

Different employees ascribe personal values to inputs and outputs. Thus, two employees of equal experience and qualification performing the same work for the same pay may have quite different perceptions of the fairness of the deal.

Employees are able to adjust for purchasing power and local market conditions. Thus a teacher from Alberta may accept lower compensation than his colleague in Toronto if his cost of living is different, while a teacher in a remote African village may accept a totally different pay structure.

Although it may be acceptable for more senior staff to receive higher compensation, there are limits to the balance of the scales of equity and employees can find excessive executive pay demodulating.

Staff perceptions of inputs and outputs of themselves and others may be incorrect, and perceptions need to be managed effectively.

An employee who believes he is under-compensated may withdraw good will and reduce effort.

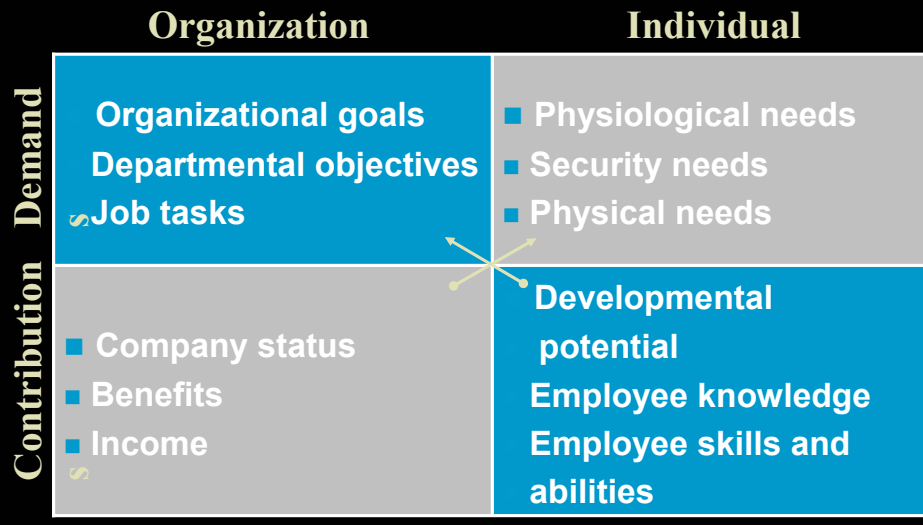
What does equity theory suggest that managers should do?

Equity theory suggests that over rewarded individuals might be motivated to increase their performance and under rewarded individuals to decrease their performance in an effort to restore equity. However, very often, overrewarded employees will find ways to rationalize their over reward; they assume they "deserve" it.

The concept of equity is most often interpreted as a positive association between an employee's effort on the job and the pay he or she receives. Whoever contributes more is believed to be entitled to more of the outputs. This may be referred to as the equity norm. This equity norm is generally learned through a process of socialization. For example, most groups establish norms that induce members to behave equitably. However, our society also promotes other notions of equity or fairness. In social welfare systems or old-age medical assistance schemes, resources -- outputs -- are distributed according to need. In general, our society appears to also have norms that accept this distribution of outputs as equitable. In trying to predict how an individual will react to a particular reward system, we need to know which equity norm they believe should be applied; one based on inputs or one based on need.

In order to improve distributive fairness perceptions, employers can make sure that the situation is perceived as equitable – is the right allocation rule being applied? Will employees see their outcomes/input ratio as equal to others’?

Individual—Organizational Exchange Relationship



Motivational Theory of Social Exchange

	Person	Comparison other
Equity	$\frac{\text{Outcomes}}{\text{Inputs}}$	$= \frac{\text{Outcomes}}{\text{Inputs}}$
Negative Inequity	$\frac{\text{Outcomes}}{\text{Inputs}}$	$< \frac{\text{Outcomes}}{\text{Inputs}}$
Positive Inequity	$\frac{\text{Outcomes}}{\text{Inputs}}$	$> \frac{\text{Outcomes}}{\text{Inputs}}$

Strategies for Resolution of Inequity

Alter the person's outcomes

Alter the person's inputs

Alter the comparison other's outputs

Equity Theory was first proposed by Adams (1965). Adams proposed a theory regarding how people arrive at decisions regarding whether a decision was fair.

$$\frac{\text{Employee Inputs}}{\text{Employee Outcomes}} = \frac{\text{Other's Inputs}}{\text{Other's Outcomes}}$$

If the Other employee is receiving more from the organization (such as getting paid more), the employee won't think it's unfair if the Other contributes more to the organization too (by being a better performer, working longer, etc.).

If inequity is perceived, the employee may experience emotional reactions (such as anger) as a result. Adams proposed a number of ways that an individual would act to resolve the inequity, but research has not yet clarified when an individual would choose one path instead of another:

Employee could decrease inputs (that is, work slower or more sloppily), thus equating the ratios

Employee could try to get outcomes increased (by asking for a raise)

Employee could try to get Other to work harder, thus equating the ratios

Employee could try to get the Other's Outcomes reduced (e.g., by squealing)

Strategies for Resolution of Inequity

Alter the comparison other's inputs

Change who is used as a comparison other

Rationalize the inequity

Leave the organizational situation

Restoring equity

inequity causes dissatisfaction and leads to attempts to restore balance to the relationship

a variety of behavioral and perceptual options may be used to restore equity

alter Person's ratio

reduce inputs - give less effort, perform at lower levels, quit

increase outcomes - request higher grade, better pay

alter Other's ratio

decrease outcomes

increase inputs

Fair process

procedural justice - using a fair process in decision making and making sure others know that the process was as fair as possible

fair processes make unfair outcomes more palatable

explain how a decision is made

make an unbiased decision

offer a chance to voice complaints

collaborate in making decision

Equity Sensitivity

Equity Sensitivity is an individual's tolerance for negative and positive equity.

- **Benevolents**
- **Sensitives**
- **Entitled**

Benevolent

Tolerant of being under rewarded

Equity Sensitive

Want ratio to be equal to the comparison other

Entitled

Prefer receiving proportionately more than others

Equity sensitivity suggests that negotiators "react in consistent but individually different ways to perceived equity and inequity because they have different preferences for equity" (Huseman, Hatfield and Miles 1987, p.222). Equity sensitivity defines three classes of individuals [negotiators]: benevolents, equity sensitives, and entitleds. Benevolents are considered as "givers" while entitleds are noted as "takers." Sensitives conform to the traditional balance of inputs and output (King, Miles and Day 1993).

<http://oxygen.vancouver.wsu.edu/amsrev/theory/wimsatt01-2005.html>

Equity Sensitivity

Huseman, Hatfield and Miles (1987) proposed that equity sensitivity is an individual difference variable that influences how individuals react to inequity. Equity sensitivity is related to a "person's perception of what is and what is not equity and then uses that information to make predictions about reactions to inequity" (King, Miles and Day 1993, p.302).

Equity sensitivity is best understood conceptually by identifying characteristics of individuals along points of a continuum. On one end of the continuum are

Are you equity sensitive?

I prefer an equity ratio equal to that of my comparison other



Equity sensitivity is an individual difference variable put forth as a refinement of equity theory (Adams, 1963, 1965) and is proposed to be an influence on subjects' relationship orientation (Huseman et al., 1985) and on their cognitive orientation concerning rewards and reward distribution (Huseman et al., 1985, 1987; Miles et al., 1989). Proposed as a measure to reflect differential orientations toward particular outcomes (e.g., an input orientation vis-a-vis an outcome orientation; a desire to maximize the relationship vis-a-vis a desire to maximize financial outcomes), equity sensitivity measures individuals' cognitive orientations toward social exchange.

Equity sensitivity is a measure of the degree of benevolence versus entitlement of an individual. Those measuring high in benevolence have been found to report a greater tolerance for underreward and to report the highest satisfaction when underrewarded (Huseman et al., 1985; King et al., 1993). They are also proposed to be more attuned to the relationship dimension of the exchange than to the input-outcome evaluation, and thus the relationship itself becomes an important outcome for these individuals (Huseman et al., 1985).

Those measuring high in entitlement appear to be primarily focused on outcomes, relatively intolerant of underreward, relatively tolerant of overreward, and more attuned to the receipt of rewards while having relatively little regard for the input component of the equity exchange. For these individuals, satisfaction and receipt of rewards are positively and linearly related (King et al., 1993).

Those falling in the middle of the equity sensitivity spectrum are proposed to adhere to the predictions of the current equity theory model that omits incorporation of individual differences (Adams, 1963, 1965). Such individual

Benevolent

I am comfortable with an equity ratio less than that of my comparison other



Entitled

I am comfortable with
an equity ratio greater
than that of my
comparison other



Equity Theory

Equity theory focuses on the fairness of exchange relationships.

3 types of equity:

- Distributive equity**
- Procedural equity**
- Interactional equity**

Distributive Equity

Consumers form satisfaction judgments based on their perceptions of the ratio of their inputs and outputs as compared to the ratio of inputs and outputs of the seller.

Distributive Justice

The 'outcome' is usually thought of as some decision that has been rendered regarding the employee. Typical examples include hiring decisions, and the outcomes of performance appraisals, raise requests, decisions about downsizing/layoffs, etc.

Example: You apply for a job at a local temp agency with your friend. You believe that you are more qualified than your friend, but your friend is offered the job and you are not.

Procedural Equity

Procedural equity focuses on how decisions are made.

People may be unhappy if they view the procedures to be unfair:

- They do not understand the decision making process.**
- They feel that they have no “voice” in the decision making process.**

Example: The woman making the hiring decision at the temp agency was your friend's aunt, so she offered your friend the job even though you were more qualified. The element of procedural fairness that was violated was the consistency of the hiring procedures used (i.e., she bent the rules for her relative

8: Procedural Justice

‘Voice’ was proposed by Thibaut and Walker (1975), and refers to when individuals (i.e., employees) are given a chance to speak on their own behalf. They distinguished between ‘instrumental’ voice, in which their comments may influence the decision, and ‘no instrumental’ voice, in which the comments will have no bearing on the outcome (e.g., comments were only allowed after the decision had been made). Various studies have shown both to be effective in various contexts.

The other attributes of procedural fairness come from Leventhal (1976; 1980).

Consistency: A procedure should be consistent across time and employees

Bias Suppression: The decision-maker's personal biases should not play a role

Accuracy: The procedures should be perceived as accurate (e.g., the procedure should correctly identify the person who is most qualified for the job).

Correct ability: There should be an appeals mechanism in case mistakes are made

Ethicality: The decision should be made according to prevailing ethical standards

Leventhal did mention one other attribute (Representativeness: all affected parties should be considered when making this decision), but this attribute has been argued to overlap with the construct of ‘voice,’ and it has thus been omitted from the

Interactional Equity

Interactional equity focuses on the communication style or manner in which people are treated.

Rude or abusive communication and behavior are likely to lead to perceptions of unfairness.

Managerial Implications of Interactional Equity

Have you ever been dissatisfied even when distributive equity and procedural equity have seemed to be fair?

Who in an organization has the most impact on consumers' perceptions of interactional equity?

Managerial Implications of Interactional Equity

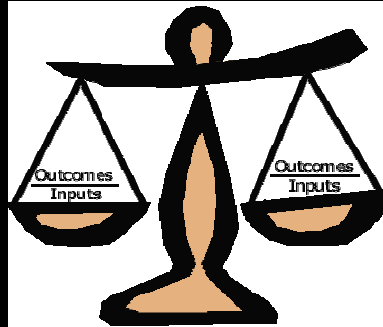
Have you ever been dissatisfied even when distributive equity and procedural equity have seemed to be fair?

Who in an organization has the most impact on consumers' perceptions of interactional equity?

Negative and Positive Inequity

An Equitable Situation

Self



Other

$$\frac{\$2}{1 \text{ hour}} = \$2 \text{ per hour}$$

$$\frac{\$4}{2 \text{ hours}} = \$2 \text{ per hour}$$

Organizational Justice

Distributive Justice:

The perceived fairness of how resources and rewards are distributed.

Procedural Justice:

The perceived fairness of the process and procedures used to make allocation decisions.

Interactional Justice:

The perceived fairness of the decision maker's behavior in the process of decision making.



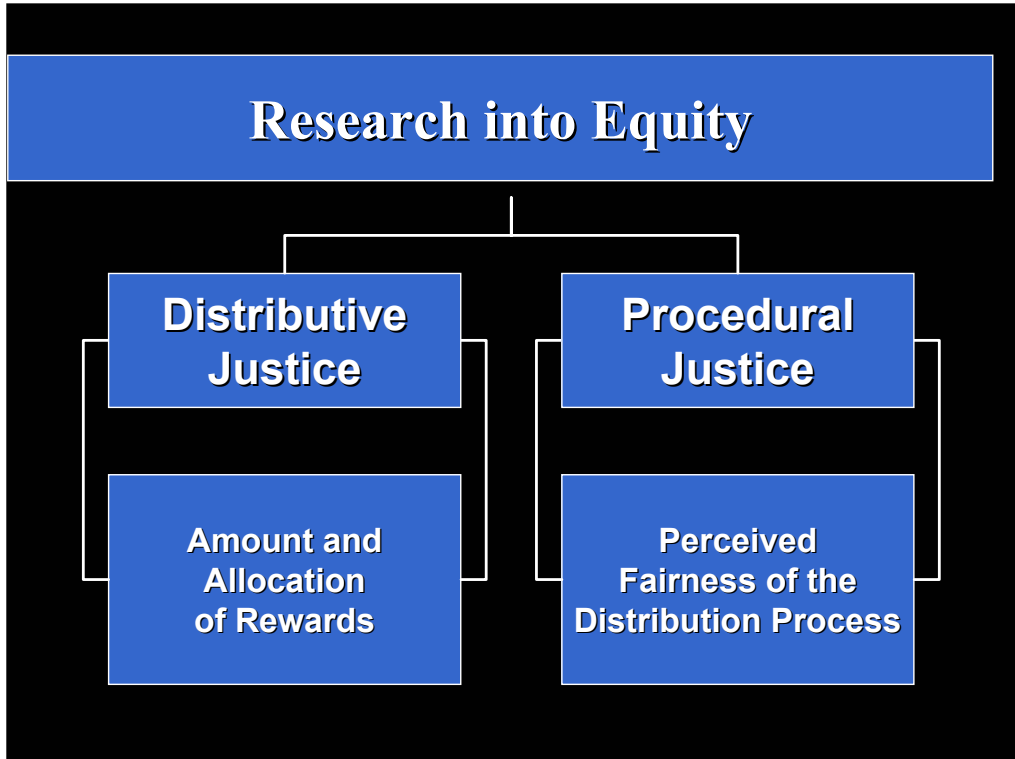
Research into Equity

**Distributive
Justice**

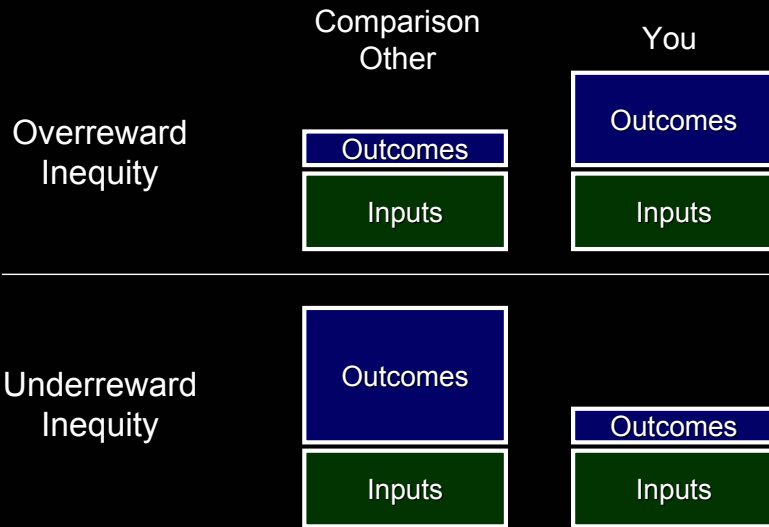
**Amount and
Allocation
of Rewards**

**Procedural
Justice**

**Perceived
Fairness of the
Distribution Process**



Overreward vs Underreward Inequity



Consequences of Inequity

Change inputs

Change outcomes

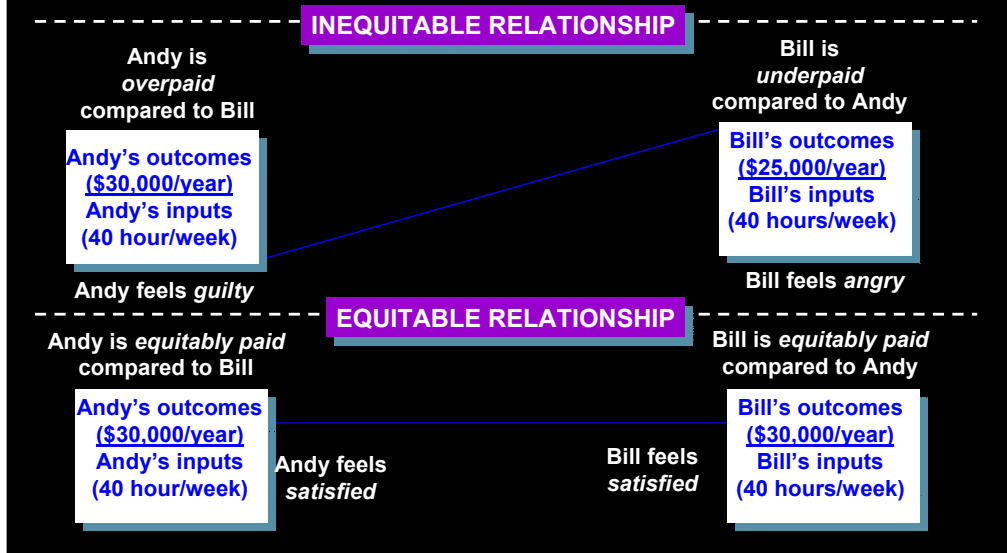
Change perceptions

Leave the field

Act on the comparison other

Change the comparison other

Equity Theory: A Summary and Example



Resources

Resources to get a basic understanding of organizational justice:

Folger, R., & Cropanzano, R. (1998). *Organizational justice and human resource management*. Thousand Oaks, CA: Sage Publications.

This book gives a comprehensive discussion of contemporary justice issues. Instructors wishing to familiarize themselves with the basic issues should read the Preface (pp. xii-xxvi).

Colquitt, J. A., Conlon, D. E., Wesson, W. J., Porter, C. O. L. H., & Ng, K. Y. (2001). Justice at the millennium: A meta-analytic review of 25 years of organizational justice research. *Journal of Applied Psychology, 86*, 425-445.

This article is a comprehensive empirical review (183 studies) of relationships between justice and various outcomes. Specific components of procedural justice are examined separately.

Greenberg, J., & Cropanzano, R. (Eds.) (2001). *Advances in organizational justice*. Stanford, CA: Stanford University Press.

This book includes advanced discussions of cutting-edge justice issues written by leading justice scholars.

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Colquitt, J. A. (2001). On the dimensionality of organizational justice: A construct validation of a measure. *Journal of Applied Psychology, 86*, 386-400.

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