A TEST OF INDIVIDUAL LOCAL PAY-STATUS VALUE AND ITS RELATIONSHIP TO ATTITUDES OF COMMITMENT, PAY SATISFACTION, TURNOVER INTENTION, AND ATTACHMENT.

By

Douglas Kent Peterson, Ph.D.

A DISSERTATION

Presented To The Faculty Of

The Graduate College At The University Of Nebraska

In Partial Fulfillment Of Requirements

For The Degree Of Doctor Of Philosophy.

Major: Interdepartmental Area Of Business (Management)

Under The Supervision Of Professor John M. Schaubroeck

Lincoln, Nebraska

May, 1997

UMI Number: 9734635

UMI
300 North Zeeb Road
Ann Arbor, MI 48103

DISSERTATION TITLE

A Test of Individual Local Pay-Status Value and Its Relationship to Attitudes of Commitment, Pay Satisfaction, Turnover Intention, and Attachment

BY

Douglas Kent Peterson

SUPERVISORY COMMITTEE:

APPROVED	DATE
Signature	5-6-97
John Schaubroeck Typed Name	
Signature	5/6/97
Lester A. Digman Typed Name	
Signature	5-6-97
Cary D. Thorp Typed Name	
Signature	5/6/97
Richard A. Dienstbier Typed Name	
Signature	
Typed Name	
Signature	
Typed Name	

GRADUATE COLLEGE
UNIVERSITY OF NEBRASKA

A TEST OF INDIVIDUAL LOCAL-PAY STATUS VALUE AND ITS RELATIONSHIP TO ATTITUDES OF COMMITMENT, SATISFACTION, TURNOVER INTENTION, AND ATTACHMENT.

Douglas Kent Peterson, Ph.D.

University of Nebraska, 1997

Adviser: John M. Schaubroeck, Ph.D.

The purpose of this research was to test psychological correlates and modifiers of perceived salary administration inequity in organizations. The general assumption is that the pursuit of external equity in salary administration can lead to the internal equity problems evidenced by salary compression and perceived unfairness of salary administration. Specific to this study is the circumstance where these problems cause a perception of pay status inequity within a local work unit.

This research supports the notion that movement in relative position causes changes in job related attitudes of commitment, general affect, pay satisfaction, or job satisfaction. Attitudes of turnover intention and attachment were also tested, but insignificant research findings were revealed.

This study develops a framework behind the importance people attach to their place in a local status hierarchy. Research has theorized that local status matters to individuals in the workplace but few empirical studies have attempted to develop and test a model of local pay status value while correlating changes to attitudinal outcomes. This

study fills that hole. It was revealed that status does matter in the workplace. Modifiers of attitudinal outcomes were need for power, pay valence, local unit size, and age.

Acknowledgments

I want to convey my sincere gratitude to all of the members of my supervisory committee. John Schaubroeck, mentor, professor, and friend, I appreciate your wisdom, your technical skill, your guidance, and your commitment. The leadership, encouragement, and perspicacity you've shown will help shape my academic life. Les Digman, Cary Thorp, and Dick Dienstbier, your encouragement and wisdom helped to transform my ideas into viable research. Thank you. Writing a dissertation has been the loneliest task I have ever undertaken. The support I've received made this effort tough, but tolerable.

I would also like to thank the distinguished scholars who helped me choose this path into academics. These persons were Sang M. Lee, Fred Luthans, and Ken Mackenzie. None of this would have happened without them, and I will always be thankful for their guidance, care, and encouragement. To them, I offer deep respect and gratitude.

I would like to generally thank the faculty, students, and staff at Nebraska. Among them, I want to thank John McIntosh for his friendship, emotional support, and Zen; Terry Sebora for his encouragement and insight; and Marina Onken for listening. I also want to thank my colleagues and students for their friendship, patience, and good will. You are all wonderful, smart, and generous persons. I am a better person for having known you.

Finally, and this is most important, I want to thank those persons who accepted my vision and knew this journey was part of my calling. Mom and Dad, unending thanks. Reverend Dr. Otis Young, thanks. Paul, thanks. Dale, thanks. Gary, thanks. Becky and Lucas, thanks. Kerin, well, thanks. To paraphrase a popular song from my days as an undergraduate, I'd like to say, "What a long, strange trip it's been!"

This process has been dedicated to my daughter, Ellen Leslie Peterson, who at this time is almost three. Perhaps someday Ellen will read this, so I will offer some wisdom that may help in her future. Ellen, choose something you love to do, visualize it, and pursue it as far as you can. This isn't an easy road, and some people may fall away because they won't understand your passion and commitment. You will be a better person for having chosen a vision to follow. The vision will give you direction, and the path will be the one God intended. I chose academics. You should choose whatever vision you want. Through your journey, Ellen, remember that I love you unconditionally, and that I am here for you.

Table Of Contents

List Of Appendix Figures, Examples, And Tables

CHAPTER 1

INTRODUCTION AND OVERVIEW.

Purpose and Need for This Study

Introduction

There is not a great deal of research addressing cognitive reasons why salary and wages are important to people. Behavioral literature (Kreitner and Luthans, 1984) indicates that changes in compensation system design and administration can yield better performance if those performance factors are made clear through functional analysis, and rewards are made contingent on performance behavior. While offering gainsharing programs, piecerate incentives, vacation award programs, and programs that have supervisors looking for "positive" behaviors to reinforce may increase productivity, there is certainly a great deal of confusion as to why this works. According to an interview with Luthans (1995), compensation motivation is such that "it isn't important *why* it works, rather, it is important *that* it works." In essence, behavioral incentives are simply an application of Thorndike's (1911) law of effect, which asserts that any behavior that is rewarded will tend to be repeated. Just because it is rewarded, however, doesn't explain why that reward works. What is needed is a research effort that delves into the psychological components of why behavioral incentives work.

This research partially fills a research hole that explains why money might be motivating to some people. According to Haire, Ghiselli, and Porter (1965: 3) the "basic assumption - that money motivates people to work - is a psychological one." Lawler (1971) indicates that money is a generalized reinforcer to other primary reinforcers and as such isn't the reason why people continue to be motivated by it. Lawler (1971) leaves the

field open to what those primary reinforcers must be. This research asserts that one of those primary reinforcers could be status or the respect of peers.

Classes of Wage Research

Three classes of wage research questions can be seen in the literature. First, there are questions surrounding the *a priori* assumption that pay is a direct motivator. Second, there are questions surrounding how pay is perceived by the recipient. Third, there are questions surrounding how social comparisons surrounding pay are made as well as meanings ascribed to those comparisons. While these three classes of problems may be kept artificially separate for research purposes, they are intertwined in reality. This separation is useful because it points to the three relatively distinct areas of psychology (motivation, perception, and social reference) that mesh behavioral and cognitive aspects of pay perception. While some may find it easy to stand on one side of a behavioral or cognitive fence, clearly research on pay demands a researcher to be aware of both sides.

On the Incentive Nature of Pay

Introduction

Theory, research and experience all indicate that employees treat their pay as an important outcome or reward. As an important outcome or reward, pay systems and pay act as an incentive to future effort and results in the workplace. Because pay acts as an incentive, one must explore why this is so. According to Bandura (1976, 1978, 1986), incentive motivators act as reinforcements for a task, then as generalized evidence for self efficacy. For Deci and Ryan (1992), pay acts as a reinforcer for a competence need. In the first case, it is a reinforcer to enactive mastery of a task, and then a hygiene factor

involved with keeping performance levels high. In the second case, it is a reinforcement for learning a task and then is used as a measure for how well others are perceiving the task completion process. Pay also acts as a signal device for recognition, respect, and even relative contribution (Frank, 1984; Cherrington, Reitz and Scott, 1971). By receiving a reward, a person uses that reinforcement to indicate a level of competence, and to indicate whether full or partial competence is being perceived by important others or by the self.

Heneman (1985) indicates that concepts of equity invariably enter into any discussion of pay satisfaction. Between 1963 and the present, a topic of theoretical interest has been the topic of employee reactions to pay equity (Cherrington, Reitz, Scott, 1971). Beginning in the 1960's, Adams (1963) noted that persons react to perceived inequities in work outcomes when they are weighed against work inputs for self and comparison other. In response to a need to perceive equity in outputs versus inputs, persons were predicted to exhibit a large number of responses that range from decreasing work inputs to leaving the work environment. One result of this idea is that scholars and managers have become increasingly aware of the need to create and maintain the perception of workplace equity in order to preserve high productivity, minimize dysfunctional behavior, and achieve at least one component of a harmonious workplace.

Equity and Pay Equity

One important form of equity is pay equity. Chapters in human resources management textbooks (Fisher, Schoenfeldt and Shaw, 1995: Gomez-Mejia and Balkin, 1996) reflect the concerns of scholars, managers, and employees that pay systems should provide for equitable conditions among employees. Pay systems not only should reflect

distributional justice differences in skills, knowledge, abilities and seniority between persons in the workplace, but should also reflect differences in responsibility between jobs and occupational classifications. Further, pay systems should also reflect procedural justice in arriving at a fair distribution of income (Greenberg, 1991; Cropanzano and Folger, 1991; Messe, Watts, 1983; Fisher, Schoenfeldt, and Shaw, 1995). These works indicate that pay systems should simultaneously provide for internal, external, position, and hierarchical pay equity. The implication is that when standards of equity are held, there will be no compensation-related reason for employee motivation to decline.

Figure 1-1 in the Appendix shows Adams equity theory formulation. The model shows that a person formulates a ratio of inputs to outcomes. This ratio is then compared to the input/outcome ratio of some referent source. If the ratios correspond, the employee perceives feelings of equity and satisfaction. Divergence in the ratios leads to feelings of inequity and dissatisfaction. If the employee's ratio is less than the comparison other's ratio, than feelings of inequity will result and the employee may choose to lower inputs or raise outcomes for either party. In the case of being inequitably overpaid, an employee may try to attempt reduction of the inequity by changing the actual input or outcome ratios for themselves or for the other person. In short, equity theory emphasizes that pay satisfaction is caused by feelings regarding the equity of one's pay.

It has been asserted that these feelings are the result of perceptual and comparison processes (Motowidlo, 1983, 1982; Weick, 1967). While these processes are quite complicated, they do suggest that pay satisfaction and the efficacy of incentive motivators may be influenced in many different ways. Among them are comparisons to work itself,

comparisons to others in a local work unit, comparisons to past work done by the individual, comparisons to work done by outsiders, or even comparisons to work done in different work units.

The theory developed in this paper extends Adams (1965) equity theory because the general thesis is the same: that people will react to perceived inequities in the distribution of rewards. However, this research seeks to explain differences in person's reactions due to their noticing a local wage inequity. This work also postulates an attitudinal outcome, rather than a behavioral one. This also makes the work substantially different in scope and focus than Adams' work. The idea is that the process for behavioral reactions may not move directly from stimulus to response; rather, there may be an intermediary perceptual stage through which people move that predicts behavioral outcomes. This is similar to Ajzen's (1991) work which postulates that behavioral outcomes are preceded by attitudes, which was supported in Marsnik et al (1993) where voting behaviors were preceded by behavioral intentions to vote. In this way, with the addition of perceptions and intentions, this research will add to Adam's (1965) equity theory. This is something very few researchers have done in the years since Adams wrote.

<u>Status or Referent Equity</u>

Research in equity theory generally has not addressed the idea of status or referent equity. Recent research topics in equity theory generally relate to replicating Adams' (1965) work, but do not try to extend equity theory predictions beyond the work input and monetary output paradigm. Examples of the last few years of published equity theory research involve expectations about future events and how these expectations influence

the perceived value of obtained outcomes through simple comparison processes (Seta, Hundt, and Seta 1995). In this article, it is discussed how costs and inconsistent expectations influence outcomes like subsequent expectations, attitudes, hopes and values. While Seta, Hundt, and Seta (1995) doesn't postulate status inputs like this research does, the article does lay the foundation for attitudinal outcomes, which is consistent with the research at hand. Further research explores how customers perceive equitable outcomes in customer service situations (Lapidus and Pinkerton, 1995; VanDierendanck, Schaufeli, Sixma, 1994). Other research looks into how perceptions of inequity will moderate the trust building processes of subordinates toward their supervisors (Deluga, 1994). This research points to the same conclusions: that perceived inequities can predict the connection between trust building, leader-member exchange processes, and organizational citizenship behaviors.

Further research on equity theory predicts outcomes in positive inequitable situations. In deDreu, Lualhati, and McCusker (1994) advantageous inequitable situations were less preferred among workers than were equitable situations in general. In a non-cooperative supervisory context, however, advantageous inequitable situations were preferred. This research, although not on status roles in general, does lay the groundwork for this study because it addresses individual situations and the reactions people may have to changes in the situation at hand (Kerckhoff, 1976). In the deDreu, Lualhati,, and McCusker study (1994) the situation was a supervisory relationship that changed from cooperative to non-cooperative while tracing outcomes to attitudes about general equity.

To further review equity theory research, let us look at a description of equity research over the past few years. Equity research has found its way into most liberal arts research agendas. Shizuoka (1990) looks at equity theory as it relates to sex role attitudes in married couples. Humphrey and Berthiaume (1993) look at job characteristics and biases in subordinates appraisals of managers. Van-Wijck (1993) explores vignette analysis in evaluating income distribution types. Folger and Doherty (1993) look at variations on the Brehm (1989) energy model in equity theory. Barr and Conlon (1994) look at the effects of distributions of feedback in work groups. Sheehan (1993) looks at the effects of turnover on those who choose to stay with an organization. Perry (1993) looks at the effects of inequity on job satisfaction and self evaluation in a national sample of African American workers. Craig et al (1993) look at equity theory and derogation of those who aggress against others. Seta et al (1993) look at cost in generating expectations and value. Van Dijk and Wilke (1993) look at differential interests, equity and public good provision. Koehler et al (1992) look at physician patient satisfaction as a function of equitable treatment. Canary and Stafford (1992) look at relational maintenance strategies and equity in marriage. Most of these studies in equity theory use an equity theory framework, and try to employ typical equity theory predictions. Very few of these, with the exception of Seta et al (1993) and Seta, Hundt and Seta (1995) explore attitudinal outcomes. This paucity of research would tend to cause one to recognize there might be an open area for research interest. This dissertation proposes to exploit that research niche.

Another area where this research extends equity theory is in the area of individual attitudes like pay satisfaction. Generally equity theory predicts behavioral reactions to perceived under-equities or over-equities. Very little research predicts attitude change or outcomes as a result of inequity. Pay satisfaction indicates that a person should be relatively satisfied with pay incentives. If it is the case that pay satisfaction exists for an employee, other motivation projects like job design or performance management programs may cause better productivity in the work place. For reviews of pay satisfaction see Heneman (1985), Weiner (1980), Heneman and Schwab (1985), Ronan and Organt (1973), and Lawler (1971).

It has been suggested that pay exists in a non-symmetrical relationship to satisfaction. Herzberg (1965) suggests that at a level below pay satisfaction, pay is a dissatisfier. Above a satisfactory level, it seems to add relatively little. Consequently, it may be helpful to look at the literature for correlates of satisfaction. One such concept in the literature is the discrepancy model for pay satisfaction. Developed by Lawler (1971, 1981), the discrepancy model is perhaps the most well known of the pay satisfaction models. Figure 1-2 in the Appendix indicates the discrepancy model according to Lawler (1971)

According to this model, pay satisfaction or dissatisfaction is a function of the discrepancy between perceptions and reality. The first perception pertains to how much pay one feels he should receive. The reality is how much pay one does receive. If these figures are identical, a person will experience pay satisfaction. Discrepancies in the calculus lead to feelings of dissatisfaction. If the "should receive" perception exceeds the

"does receive" reality, a person will feel underpaid and will experience dissatisfaction. If the "does receive" reality is greater than the "should receive" perception, a person will feel overpaid and will experience dissatisfaction in the form of guilt or discomfort. These concepts are consistent with the equity model. When they are used in Adams (1965) equity theory, they predict at least one form of attitude change (pay satisfaction) that is the theoretical grounding this research needs.

One particularly interesting part of Lawler's (1971) discrepancy theory is that it shows hypothesized determinants of "should receive" and "does receive" calculations. These involve personal and job inputs, as well as outcomes other than pay. They also involve the inputs and outcomes of a referent other. Unlike Adams (1965) model, the persons own pay, pay history, seniority, education, performance, skill, experience and training are hypothesized to be determinants of discrepancy perceptions. These factors that modify discrepancy perceptions are the types of individual difference ideas that are needed by the theory of local status reactions. While Adams (1965) would have predicted that all individuals react the same to perceived or real inequity, Lawler's (1971) discrepancy model predicts that persons will develop different reactions according to background, and personal factors like social-demographic data. Since this paper is trying to support the notion that persons will have different reactions to real or perceived administrative or pay level inequities, a good place to start is to incorporate Lawler's (1971) and Adams (1965) models. It opens the possibility that status and need for status can be incorporated into the theoretical research.

Theory and research in pay equity has indicated that at least two modifications to the Lawler's (1971) model may be useful. Neither modification to the model alters the basic tenets of equity and satisfaction, they do make the study of pay satisfaction more realistic, and more amenable to this research (Weiner, 1980). These modifications are discussed below and yield the modified discrepancy model (Dyer and Therault, 1976). Please remember that the term "pay satisfaction" connotes a uni-dimensional construct and suggests that people have some overall, general affect level about their pay. While they indeed may have such an overall feeling, more specific reactions are likely to occur. These reactions are due to the complexity of pay as it exists and as it is administered in organizations.

Pay Categories and Pay Satisfaction

Heneman and Schwab (1979) indicated that pay can be broken down into four distinct categories: pay level, pay structure, pay system, and pay form. These are defined as follows:

1. Pay level refers to an average of several wages or salaries in an organization. The average may be based upon individual pay rates for a single position or on pay averages for a number of positions.
2. Pay structure refers to the hierarchy of pay rates or levels among jobs in an organization.
3. Pay system refers to the method the organization uses to determine pay raises for individuals, which can be computed in terms of the amount of time the employee spends of the job, or for his performance or efficiency. Performance