THE IMPACT OF EQUITY SENSITIVITY AND PAY FAIRNESS ON MARKETING MANAGERS' JOB SATISFACTION, ORGANIZATIONAL COMMITMENT AND TURNOVER INTENTIONS

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This study analyzed the relationship among equity sensitivity, pay fairness, job satisfaction, organizational commitment, and turnover intentions within a group of marketing mangers. The results indicate that marketing managers respond differently to perceptions of fairness or unfairness in how rewards are allocated. Their perception impacts organizational outcomes. Respondents who perceived that rewards were allocated fairly reported higher levels of satisfaction with their jobs, which influenced their commitment to the company and their willingness to leave. Implications for organizations are discussed.

INTRODUCTION

Employee turnover has been a focus of research for many years. Understanding the causes of employee turnover is important to organizations due to its high cost (Hom and Griffeth 1995). For example, the cost of replacing an employee who leaves can be as high as 200 percent of his or her salary (Griffeth and Hom 2001). Research has analyzed a variety of variables and their relationship to turnover including job satisfaction, organizational commitment, role states, and performance (Griffeth, Hom and Gaertner 2000).

In recent years the concept of fairness in organizations has been included in the study of turnover (Aquino, Griffeth, Allen and Hom 1997; Clay-Warner, Hegtvedt and Roman 2005; DeConinck and Bachman 2005). Equity theory was developed as a way to explain employees' beliefs of how he or she is treated in relation to others (Adams 1965). According to equity theory, employees bring inputs such as education, effort, and experience to their jobs. As a result of employees' work in their jobs, they receive outcomes such as pay and promotions. The perceived ratio of what an employee obtains from his/her job compared to what an employee puts into his/her job helps to determine equity or inequity. In order to determine perceived fairness or unfairness, employees require a benchmark or frame of reference (a referent). Often the social comparison will involve another employee in a similar job (i.e., the referent). For example, the employee will perceive the situation as unfair (i.e., distributive injustice) if the other employee is receiving a higher salary given the same level of inputs (e.g., performance and technical skills). Essentially the employee reacts to perceived pay equity or inequity.

While research generally has supported equity theory (Folger and Cropanzano 1998; Greenberg 1982), a concern has been raised that equity theory ignores individual differences (Mowday 1991). In an attempt to remedy this problem, Huseman and his colleagues (1985; 1987) extended equity theory by proposing that individuals respond differently to perceived fairness or unfairness. They proposed that individuals vary in their degree of sensitivity to perceived equity or inequity (the "equity sensitivity theory").

While other researchers have studied the effect of equity sensitivity on employees' behavior, to the best of our knowledge no study has

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examined the role of equity sensitivity in a model of turnover using structural equation modeling. Since pay is an important reason given by employees for leaving their jobs (Hom and Griffeth 1995), a need exists for understanding the role of equity sensitivity in the turnover process. The purpose of this paper is to evaluate the effect of equity sensitivity on marketing managers' job satisfaction, organizational commitment, and turnover intentions.

LITERATURE REVIEW

Equity Sensitivity

Huseman and colleagues (1985, 1987) identified three types of individuals: (a) Benevolents, (b) Equity Sensitives, and (c) Entitleds based on their degree of equity sensitivity. Benevolents are "givers," they value the relationship with their employer. They are motivated by altruism and are satisfied in situations where their inputs exceed outcomes obtained. Benevolents prefer to not be on the receiving end of rewards. They prefer to give rather than receive. Equity Sensitives are most closely related to equity theory among the three groups. They want outcomes to equal their inputs. On the opposite end of the spectrum are Entitleds. They are motivated by greed and prefer to be overpaid given their input/output ratio. Their satisfaction derives from receiving more than other individuals.

Generally research has supported the concept of equity sensitivity. Huseman et al. (1985), in a study of 859 managers, reported that Equity Sensitive and Entitled respondents were less satisfied in their jobs than were Benevolents in situations where they perceived themselves to be underrewarded. Miles, Hatfield and Huseman (1989) found some support for equity sensitivity. Benevolents were found to be willing to work harder for more pay. However, no statistical difference was found in the responses between Equity Sensitives and Entitleds.

King, Miles and Day (1993) surveyed 395 bank employees to determine the relationship between equity sensitivity and these employees' job satisfaction and distributive justice. The results indicated that Entitleds placed more importance on pay than either Benevolents or Equity Sensitives while Benevolents were more interested in the work itself. An important conclusion of this study is that by altering pay for certain employees (Entitleds) an organization can influence these employees' job satisfaction. In addition, Benevolents have shown to have higher organizational commitment and job satisfaction and a lower intention to leave than other employees (King and Miles 1994). However, research has shown that Equity Sensitive respondents report the same levels for pay satisfaction, perceived pay fairness, and turnover intentions as do Entitled individuals (Miles et al. 1989; King et al. 1993; and Shore 2004).

Although prior research has not always shown that three distinguishable groups exist regarding equity sensitivity, it has distinguished between Benevolents and Entitleds. This research has shown that higher levels of job satisfaction and organizational commitment are related to higher levels of equity sensitivity. The results of prior research indicate support for the following three hypotheses:

H_{1a}: Higher levels of perceived equity sensitivity will lead to higher levels of overall job satisfaction.

H_{1b}: Higher levels of perceived equity sensitivity will lead to higher levels of organizational commitment.

H_{1c}: Higher levels of perceived equity sensitivity will lead to higher levels of perceived pay fairness.

Pay Fairness

Pay is one of the most important components of employees' willingness to stay a member of an organization (Gupta and Shaw 1998). Some evidence exists linking pay fairness to job attitudes such as organizational commitment (Cohen and Gattiker 1994) and turnover intentions (Miceli, Jung, Near and Greenberger 1991; Trevor, Gerhart and Bourdreau 1997). Tellaeb, Bartol and Liu (2005) conducted two studies examining the effect of satisfaction with pay. In the first study involving a group of 228 managers, they found that pay raise satisfaction, but not pay level satisfaction was a predictor of turnover. The results were the same with a group of part-time MBA students. In other words, pay raise satisfaction (fairness) is an important predictor of turnover. However, the authors did not include organizational commitment and turnover intentions in their model.

Distributive fairness has been linked directly to supervisor satisfaction, but linked indirectly to organizational commitment through overall job satisfaction (Ramaswani and Singh 2003). For example, in a study of turnover among retail buyers DeConinck and Bachman (2005) reported that pay fairness predicted turnover indirectly through pay satisfaction. The results of prior research indicate support for the following hypothesis.

H_2: Higher levels of perceived fairness will lead to higher levels of overall job satisfaction.

Antecedents of Turnover

Turnover has been analyzed in many studies (Hom and Griffeth 1995; Griffeth, Hom and Gaertner 2000). While prior research has found a variety of variables correlated to turnover and/or turnover intentions, two variables in particular (job satisfaction and organizational commitment) have been shown to be significant predictors of turnover intentions and turnover. Meyer, Stanley, Herscovitch and Topolnytsky (2000) reported a correlation between affective commitment and overall job satisfaction of .65. They also reported that correlations between turnover intentions were higher than with actual turnover. Thus, organizational commitment is hypothesized to be an indirect predictor of turnover through withdrawal cognitions. Generally, research has concluded that job satisfaction is an indirect predictor of turnover through organizational commitment (e.g., Brown and Peterson 1993; Griffeth, Hom and Gaertner 2000; Meyer and Allen 1997). Therefore, the following three hypotheses will be tested.

H_{3a}: Higher levels of overall job satisfaction will lead to higher levels of overall organizational commitment.

H_{3b}: Higher levels of perceived organizational commitment will lead to higher levels of turnover intentions.

Research has not investigated the direct affect of equity sensitivity on employees' turnover intentions. Does equity sensitivity have a direct effect on turnover intentions or an indirect effect through job satisfaction and/or organizational commitment? Thus, the following research question will be investigated.

(1) To what extent does equity sensitivity affect marketing managers' turnover intentions?

MEASURES

Equity sensitivity was measured using the Equity Sensitivity Instrument developed by Huseman, Hatfield and Miles (1985). The ESI is a five-item forced distribution scale in which participants allocate ten points between two statements. The scale measures respondents' partiality for outcomes versus inputs in any organization for which they would work. Each statement refers to an employee's preference in a work situation. One statement measures an Entitled response while the other statement measures a Benevolent response. If a person splits the allocation between each statement, that person is considered to be equity sensitive. The scale was scored in the direction of benevolence. Thus, a high score would represent a Benevolent person while a low score represents an employee who is prone to be Entitled. An example of one statement is "It would be more important for me to: (A) Get from the organization or (B) give to the organization." Theoretically, a benevolent person allocates most of the points to the benevolent statement while an entitled person allocates the points for the other statement. As has been done in prior research, ESI was measured as a continuous variable (Kickul, Gundry and Posig 2005). Therefore, a significant, positive association with an outcome variable means that a Benevolent person displays higher organizational commitment.

All of the other items were measured on a five point Likert scale ranging from (1) strongly disagree to strongly agree (1). Affective organizational commitment was measured using the six – item version of the scale developed by Meyer and Allen (1997). An example of a question is "I would be very happy to spend the rest of my career in this organization." The scale has been shown to be both reliable and valid in many studies with an average alpha coefficient of .85 (Allen and Meyer 1996). The coefficient alpha was .88 in this study.

Job satisfaction was measured using five items from the Job Satisfaction Survey developed by Spector (1997). The items chosen measure overall satisfaction with the job. Examples of questions are, "My job is enjoyable." "I sometimes feel my job is meaningless." The alpha coefficient was .87.

Pay fairness was measured by four items used by Ramaswami and Singh (2003) as adapted from Folger and Konovsky (1989). The reliability was .90. A sample item was "I consider the size of my last merit increase to be fair."

METHOD

Sample Characteristics and Procedure

The questionnaire was mailed to a sample of 1,000 marketing managers whose names were obtained from a firm specializing in direct mailing lists. A few of the surveys were returned by the Post Office because of bad addresses (3.8 percent, 38 surveys). A total of 220 surveys were returned. The response rate is comparable to the response rates obtained in other marketing studies (Singhapakdi, Vitell and Franke 1999 – 22.7 percent; Bellizzi and Hasty 2001 – 18 percent). The demographic profile of the sample was as follows: the average age of the respondents was 44.6 years (range from 26 to 67 years); about 78 percent of the respondents (172) were males; and they had worked for their employer slightly more than 13 years (range from 2 to 34 years). To check for the presence of nonresponse bias, a time-trend extrapolation test was used (Armstrong and Overton 1977). No significant differences between early and late respondents emerged. Therefore, nonresponse bias does not appear to be a significant problem.

The data were analyzed using LISREL 8 (Jöreskog and Sörbom 2005). Before analyzing the structural model, the fit of a confirmatory factor analytic (CFA) model to the observed data was evaluated to determine if the items loaded on their respective scales. A mixture of scale scores and single-item measures were used to specify the models. Equity sensitivity was measured as a single indicator. With respect to that measure, to account for measurement error when using the correlation matrix, the path linking the construct to the latent variable was fixed to the square root of the construct's coefficient alpha reliability. The measurement error was fixed to the value of 1 minus the alpha coefficient. This procedure has been used in other studies (Babin, Boles and Robin 2000 and DeConinck and Bachman 2005).

RESULTS

Confirmatory Factor Analysis Model

The factor loadings for each scale ranges from .74 to .87 for intention to leave, .70 to .90 for affective commitment, .82 to .92 for job satisfaction, and .75 to .84 for fairness.

The results of the CFA indicated an excellent fit (χ^2(164)=219.53, P=.00, GFI=.91, AGFI=.88, NFI=.97, CFI=.99, RMSEA=.039). Based on the results of the CFA, the structural model was evaluated. The model fit was very good (χ^2(184)=242.26, P=.00, GFI=.90, AGFI=.88, NFI=.97, CFI=.99, RMSEA=.038). The major focus of this study was to investigate the influence of marketing managers' equity sensitive to their job satisfaction, organizational commitment, and turnover intentions. Support was found for H_{1a} (β = .23, p < .01). Higher levels of equity sensitivity did lead to higher levels of job satisfaction. Benevolents were more committed to their organizations than were Entitleds. However, support was not found for H_{1b} (β = .33, *ns*). Equity sensitivity was not related to marketing managers' organizational commitment. Equity sensitivity was a significant predictor of perceived pay fairness (β = .33, p < .01) supporting H_{1c}. As has been found in prior research, Benevolents perceived their pay as fairer than Entitleds. The research question investigated if equity sensitivity was a significant predictor of turnover intentions. The relationship was insignificant. Thus, equity sensitivity influences turnover intentions indirectly through organizational commitment and perceived pay fairness.

Next, the relationship between pay fairness and job satisfaction and organizational commitment was analyzed. As hypothesized, pay fairness predicted job satisfaction (β = .46, p < .01). However, contrary to expectations, pay fairness also was a direct predictor of organizational commitment (β = .21, p < .01).

As hypothesized, higher levels of job satisfaction led to higher levels of organizational commitment (β = .38, p < .01) while higher levels of organizational commitment led to a higher desire to the leave the organization (β = .72, p < .01).

CONCLUSION

The purpose of this study was to examine the consequences of equity sensitivity on marketing managers' job attitudes. The results indicate that perceived equity sensitivity is an important concept in the turnover process and should be included in future studies. Organizations are concerned with turnover because of its detrimental effects. Understanding how equity sensitivity impacts employees' job attitudes can help reduce turnover. These results suggested that when employees perceived that they had been treated equitably in how rewards were allocated (distributive justice) they were more satisfied with their pay and had higher overall job satisfaction.

These results indicate that equity sensitivity impacts both personal-level outcomes and, indirectly, organizational-level outcomes and indicate that not all employees perceive fairness in the same way. Benevolents reported more overall satisfaction with their jobs along with satisfaction with their pay than did Entitleds. Research has shown that Entitleds are more satisfied and committed to the organization when they receive more than other individuals for their work. At least with respect to job satisfaction, the results reported here support prior research. An important ramification is that altering pay for Entitleds, but not Benevolents, will have a greater impact on their satisfaction and indirectly their commitment and propensity to remain with the company. They will reduce their efforts or choose to leave if they do not receive greater rewards for their inputs. However, Benevolents are more willing to accept inequities in reward systems than other employees. They are less like to reduce their level of work and are more committed to the organization even if their compensation is below employees in the company or other companies. In other words, altering everybody's pay will motivate some employees more than others. Different reward systems must be established depending on the type of employee being appraised. Entitleds care about extrinsic motivation (i.e., money and promotion) while Benevolents are more interested in intrinsic motivation (i.e., recognition). Thus, individual differences are important in designing reward systems. Unfortunately, too many companies adopt one compensation plan for every employee without realizing or analyzing individual differences.

These results also indicate the importance of pay fairness. When employees are rewarded fairly for their performance, they will be more satisfied with their jobs and committed to their company. What can a company do improve the perceived fairness of pay? First, companies need to determine why an employee believes that a merit raise was unfair. Did conditions exist beyond an employee's control causing lower performance and subsequently a denial of a merit pay increase? Were the specific reasons given to the employee for the decision? Was the employee allowed input in the decision? Second, research has indicated that employees, even when they receive an unfavorable outcome, will respond more favorably when they are provided an explanation and are allowed a "voice" in the process (procedural justice). Thus, feedback needs to be provided for the reasons for the decision and allow employees input into the decision. The important point is that when the employee *perceives* that the decision was unfair negative repercussions may occur.

Limitations

An inherent problem with studies involving a mail survey is the low response rate. Although the time-trend extrapolation test indicated that nonresponse bias was not a serious problem, a higher response rate would have provided more validity to these results. Another limitation is that this study was limited in scope. Research has shown that organizational justice is an important factor in the turnover process (DeConinck and Bachman 2005) and is influence by equity sensitivity (Kickul, Gundry and Posig 2005). Future studies analyzing the influence of equity sensitivity may include measures of organizational justice into their models.

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