Equity theory
Background

J. Stacy Adams, 1963
Psychologist

‘employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others’
Equity theory

Background

Thoughts of fairness, comparison other
Person’s willingness to work
Thoughts, perceptions, judgements
motivation
Equity theory

Key Points

The ratio of inputs to outcomes - satisfaction with the job

1 inputs

Participants’ contributions to the relational exchange.

Time
Education
Experience
Skills
Effort
Loyalty
Hard Work
...

2 outcomes

Benefits receiving from the job

Job security
Salary
Recognition
Reputation
Responsibility
Sense of achievement
Praise
...

...
Equity theory

Key Points

Social comparisons > (in)equity perception
Focus:
Whether the distribution of resources is fair to both relational partners
Equity:
Similar ratio bw benefits and contributions
Equity theory

Key Points

Propositions:

Self-inside: Individuals seek to maximize their outcomes
Self-outside: Group can develop systems of equity to maximize collective rewards
Others-inside: Individuals feel distress when in inequitable relationships
Other-outside: Individuals attempt to eliminate their distress by restoring equity.
Equity theory

Application in business

Primary assumptions:

1. Equity norm: Employees expect a fair return for what they contribute to their jobs
2. Social comparison: Employees determine what their equitable return should be after comparing with coworkers
3. Employees will seek to reduce the inequity either by distorting inputs and/or outcomes in their own minds (altering inputs and/or outcomes, leaving the organization.)
Equity theory

Application in business

Implications for managers:

1. People measure the totals of their inputs and outcomes
2. Different employees ascribe personal values to inputs and outcomes
3. Employees are able to adjust for purchasing power and local market conditions
4. There are limits to the balance of the scales of equity, employees can find excessive executive pay demotivating
5. Staff perceptions of inputs and outcomes of themselves and others may be incorrect
6. Overcompensate may increase effort. However, he may also adjust the values of his inputs, internalized a sense of superiority and actually decrease his efforts
Critisims

demographic and psychological variables 
one might feel that his compensation is equitable to other employees', but view the entire compensation system as unfair (Carrell and Dittrich, 1978).