

UNDERSTANDING STAKEHOLDER ACTION:  
EQUITY AND EXPECTANCY CONSIDERATIONS

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# UNDERSTANDING STAKEHOLDER ACTION: EQUITY AND EXPECTANCY CONSIDERATIONS

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University of Pittsburgh, 2005

In this dissertation I address the general research question “What are the conditions under which stakeholders will take action against an organization?” I respond to this question by acknowledging that a stakeholder is likely to act when it is motivated to do so: accordingly I adopt two of the most well-established motivation theories, equity theory and expectancy theory, based on which I develop a framework for understanding when a stakeholder is likely to take action against the focal organization (FO). I assert that stakeholders are most likely to take action against the FO when they perceive underreward inequity in their relationship with the FO and they have a high expectancy that they can successfully take action in order to remedy that inequity. To test hypotheses derived from the framework I develop an experiment wherein subjects peruse two vignettes, each concerning a specific stakeholder-FO relationship, and respond to various questions concerning the likelihood that they would engage in various actions. Results provide support for the idea that both a stakeholder's perceptions of the degree of equity (or inequity) in its relationship with the FO and its expectancy that it can successfully engage in action that will result in valued outcomes affect its propensity to take action against the FO. Other results indicate that overrewarded stakeholders may be more likely than others to engage in behaviors that help the FO. Results concerning the impact of equity sensitivity on stakeholder propensities to engage in action either detrimental to or supportive of the FO were mixed.

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## PREFACE

I would like to thank my mother and the members of my dissertation committee for their support of this enterprise.

“But that wasn’t the worst: before me, posed with a sort of indolence, was a voluminous, insipid idea. I did not see clearly what it was, but it sickened me so much I couldn’t look at it.”

- Jean-Paul Sartre

“Anyhow, it was quite likely that in a month’s time I would have entirely different opinions on any subject. What more could have been expected of me?”

- Françoise Sagan

## **1.0 INTRODUCTION**

### **1.1 THE IMPOSITION OF SANCTIONS BY STAKEHOLDERS**

In 2003, Planned Parenthood officials faced a problem concerning the construction of an abortion clinic associated with their offices in Austin, Texas: a wide variety of suppliers and subcontractors refused to contribute to the project, resulting in the builder abandoning the enterprise. Contractors in lumber, cement supply, foundation building, plumbing, heating and air-conditioning, windows, flooring, roofing, insulation, and landscaping – hundreds of subcontractors altogether – agreed to participate in a boycott of Planned Parenthood’s construction project organized by a concrete contractor and anti-abortion activist. Telephone and letter-writing campaigns organized by the activist urged more than 750 Austin- and San Antonio-based businesses not to provide supplies or services for the construction of the clinic, and to join his organization, the Texas Contractors and Suppliers for Life Association. Some members of the public joined the effort, as did the anti-abortion group, Texas Right to Life, and many churches, contacting relevant contractors and warning them not to participate in the project.

The same year, in Miami, representatives of the Haitian American Foundation and the Cuban American National Foundation threatened to sue or boycott Rockstar Games, in whose videogame, “Grand Theft Auto: Vice City,” an ex-convict controlled by the player must, at certain points, “kill all Haitians” and “kill the Cubans.” The same issue sparked protests outside New York’s city hall, and a denunciation of the game from the mayor, Michael Bloomberg.

Take-two Interactive Software, the parent company of Rockstar Games, responded by removing the offensive dialogue from future copies of the game.

In Seattle, the local chapter of the National Asian Pacific American Women's Forum threatened to launch a negative media campaign targeting the Bonzai nightclub: Bonzai was charging its patrons \$5 to eat sushi served on near-naked women. The Women's Forum found the practice dehumanizing, and claimed it promoted violence against women. About the same time, leaders in the African-American community called for a boycott of Urban Outfitters, which was selling a board game, called "Ghettopoly," that involves players acting like pimps and game cards emblazoned with statements such as, "You got yo whole neighborhood addicted to crack. Collect \$50 from each playa." Meanwhile, in South Carolina, 70,000 grocery store workers from Albertsons, Vons, and Ralphs, went on strike after failing to come to an agreement with their employers and rejecting the latter's most recent contract offer. Officials of the United Food and Commercial Workers accused the employers of attempting to shift \$1 billion of healthcare costs onto workers.

These examples are employed as illustrations of a common circumstance in the environments of organizations: a disgruntled or dissatisfied stakeholder (or stakeholders) takes action against a "focal organization" (FO) in response to some action (or inaction) by that organization. The potential for conflict is an underlying feature of firm-stakeholder relationships: indeed, Frooman (1999) states that stakeholder theory is primarily concerned with managing the potential conflicts that come from divergences of interests, and Lampe (2001: 166) asserts, "ultimately, conflict, or at least the potential for conflict, give the stakeholder concept meaning and a reason for being." Others (e.g., Brenner & Cochran, 1991; Freeman, 1984) aver that one of the main purposes of the stakeholder approach is to help managers "manage" or "deal

with” their organization’s stakeholders in such way as to promote the interests of the FO, in part through avoidance of conflict.

Combining these premises, it becomes apparent that a driving force underlying the stakeholder concept (at least from the perspective of the FO) is dealing with possibility of negative outcomes to the FO resulting from the conflict between it and its stakeholders: when there is conflict between the FO and one or more stakeholders, substantial damage to the organization’s well-being may ensue (Lampe, 2001; Ulmer, 2001). Implicit in this position, and, indeed, in the stakeholder literature in general, is a supposition that if the needs or interests of stakeholders are not met, those stakeholders may impose sanctions upon (i.e., take action against) the FO.

Stakeholder actions against organizations are commonplace. Various strategies are employed by individuals, groups, or organizations – employees, community groups, environmentalists, and countless others – in order to influence the actions taken by firms. Such sanctions may include tactics such as boycotts, divestitures, strikes, the withholding of resources, protests, letter writing campaigns, and innumerable other activities (Frooman, 1999). These stakeholder actions represent a critical issue for managers, as stakeholders’ actions can have a severe impact on the performance of the FO: as Chen and Miller (1994: 90) posit, “the extent to which a firm’s actions will provoke retaliation will be negatively related to performance.” Because stakeholder actions against FO can have serious effects on organizational performance, it is vital that stakeholder researchers identify the conditions that are likely to precipitate stakeholder action.

Unfortunately, though many (e.g., Rowley, 1997; Cordano, Frieze, & Ellis, 2004) acknowledge that advancements in stakeholder theory depend in part upon the development of a

greater understanding of how and why stakeholders respond to organizations, very little work in the stakeholder literature has investigated when stakeholders will be inclined to act against a FO: Cordano et al. (2004) state, “Managers have few tools to interpret and forecast the actions of stakeholders,” and Hendry (2003: 268) notes, “...few researchers have attempted to determine why (stakeholders) would exert pressure on a specific organization.” Work by Frooman (1999) has addressed how stakeholders will try to influence a firm *given that they have decided to act*, and Rowley (1997) identified conditions that affect a FO’s ability to resist stakeholder activity; however, with the exception of work by Rowley & Berman (2000) and Rowley and Moldoveanu (2003), research in the stakeholder literature has not addressed variables influencing the likelihood of action against the FO by stakeholders.

## **1.2 THE RESEARCH QUESTION**

A prominent question that remains to be addressed within the stakeholder literature, then, is: “What are the conditions under which stakeholders will take action against a FO?” While Rowley and Berman (2000) address the subject of stakeholder action in describing their “logic of stakeholder action,” they do not provide a substantial theoretical basis for the relationships they suggest. They hint at the importance of variables such as visibility and expectancies – “stakeholder groups must be cognizant of the firm’s behavior, be willing to take action to influence the firm, and have the capabilities to do so” (Rowley & Berman, 2000: 409) – but do not develop the idea further.

In the words of Rowley and Moldoveanu (2003: 207), “...the stakeholder perspective includes the notions that stakeholders have interests (and) mobilize to protect or enhance those interests...” However, while stating that most stakeholder action is indeed “interest-based,” they

differentiate between an “interest-based view” and one based on social identity. They then focus on social identity (Tajfel & Turner, 1979) as a determinant of stakeholder action, asserting that stakeholder action can occur as a result of social actors’ desires to express their social identification with a group or organization. They do note that two key variables (other than the desire to enhance social identity) leading to stakeholder action are discontent with the FO and the ability to act against the FO, but do not pursue the idea further. Thus, a void remains in the stakeholder literature: an explicit attempt to elaborate on the “interest-based view” of stakeholder action. My goal in this dissertation is to more fully articulate a framework for understanding stakeholder activity that is based on stakeholder interests rather than on social identity. In doing so, I invoke equity theory (which incorporates the concepts of discontent due to one’s interests not being met) and expectancy theory (which addresses the ability to act against the FO), two of the best developed theories of motivation.

### **1.3 A RESPONSE TO THE RESEARCH QUESTION**

#### **1.3.1 The Interest-based View of Stakeholder Action**

Despite the lack of explicit acknowledgement in most of the literature, Rowley and Moldoveanu (2003), as noted above, assert that an underlying assumption in stakeholder research is that stakeholder action, when it occurs, is interest-driven; that is, stakeholders act in order to promote or protect their interests (e.g., Frooman, 1999). Indeed, they suggest that the stakeholder perspective in general may be based on this position. Stakeholders tend to be defined in terms of their interests, or “stakes,” which are seen to be affected (and perhaps put at risk) by the actions of the FO (Carroll, 1993; Rowley and Moldoveanu, 2003), and these interests are generally seen as providing the purpose behind stakeholder action. Thus, stakeholders may attempt to influence

or “manage” the firm in order to forward their interests (Brouthers & Bamossy, 1997; Frooman, 1999; Gibson, 2000; Mitchell, Agle, & Wood, 1997; Waxenberger & Spence, 2003). The potential for stakeholder action is therefore dependent, in part, on the degree to which the FO’s actions are related to the fulfillment of the stakeholder’s interests (Savage, Nix, Whitehead, & Blair, 1991). From this point of view, stakeholders are quasi-rational actors (subject to “bounded rationality” (Simon, 1957)), whose responses to the behaviors of the FO are founded in assessments of the actions’ utilities in promoting or protecting their interests (Rowley & Moldoveanu, 2003): generally speaking, stakeholders will act when they perceive that actions taken (or not taken) by the FO impede their ability to have their interests met.

### **1.3.2 Stakeholder Interests and Motivation**

The implication of the interest-based view is that stakeholder interests *motivate* stakeholder action; thus, one way of incorporating stakeholder interests into a model of stakeholder action is to employ motivation theories to describe the phenomenon. It is my position that motivational forces underlie stakeholder activity: I make the (perhaps trivial) assumption, similar to motivation theorists’ assumption that motivation is a prerequisite to effort directed by individuals toward task performance (Steers & Porter, 1979), that a prerequisite to stakeholder action against an organization is the motivation to undertake that action. Therefore, I assert that motivation theories are the best source for frameworks to help us understand such stakeholder behaviors.

Stakeholders have, from the inception of stakeholder theory, been seen as entities that have motivations (Mitroff, 1983); however, underlying sources of stakeholder motivation have not been well-elaborated upon. Therefore, integral to my approach will be addressing what it is that motivates a stakeholder to act against a FO (that is, to attempt to impose sanctions upon it). In particular, I will focus on stakeholder perceptions of the equity of the FO-stakeholder



relationship, as well as stakeholder expectancies concerning its ability to mount a successful action against the FO in order to have its interests met.

I take the position that explanations derived from equity theory (Adams, 1963; 1965) and expectancy theory (Vroom, 1964) can account for much of why stakeholders are (or are not) motivated to act against an organization. A stakeholder's motivation to take action against an organization is dependent on its perception of the fairness of its relationship with the organization, the importance of the outcomes (i.e., interests) at stake, its perception that it can successfully take action against the FO, and its perception that successful actions will lead to desired outcomes. (In discussing stakeholder perceptions, in cases where the stakeholder is not an individual I am referring to the perceptions of key leaders, authority figures, or decision-makers within the stakeholder group or organization).

While equity theory and expectancy theory were initially developed to understand motivation at the individual level, their concepts seem to have great potential for understanding the motivation of stakeholders, despite the fact that "stakeholder" is a concept that crosses levels (a stakeholder can be anything from an individual, to a group, to an organization). Chen and Miller's (1994) successful application of expectancy theory to explain competitive motivation at the organizational level lends credence to this position. Furthermore, a number of studies of stakeholders (e.g., Cordano et al., 2004; Key, 1999; Winn, 2001) suggest that the effects of individual-level constructs on stakeholder behaviors have tended to be neglected by researchers in the field. Use of equity and expectancy theories will allow me to add to the meager catalogue of work in stakeholder theory that addresses such individual-level variables.

#### **1.4 THE RELATIONSHIP OF MY POSITION TO EXISTING WORK**

As noted earlier, the only works in the stakeholder literature that explicitly address the preconditions of stakeholder activity are those of Rowley and Berman (2000) and Rowley and Moldoveanu (2003). Rowley and Berman (2000) suggest several features of the FO and its environment (firm characteristics, issue conditions, industry characteristics, stakeholder environment, and institutional context) that will have an impact on the likelihood of stakeholder action directed against the FO. For example, with regard to the stakeholder environment, they propose that conditions such as past successful actions by stakeholders against an organization and existing infrastructures supporting action increase the likelihood of stakeholder action (Rowley & Berman, 2000). Interpreting this proposition from an equity/expectancy point of view, successful past actions by stakeholders against the FO and infrastructures supporting action will both raise expectancies concerning the likelihood of successful action in the present – they will increase the perceptions that the action can be accomplished, and that accomplishing it will lead to desired outcomes – thus making stakeholder activity more likely. I believe that the other propositions implied by Rowley and Berman (2000) in their “logic of stakeholder” action can likewise be subsumed under an equity/expectancy approach, which thus represents a theory-based and more parsimonious explanation for their wide variety of postulations concerning stakeholder propensities to act.

It is also my position that an interest-based approach to understanding stakeholder action, founded in equity theory and expectancy theory, can, in fact, subsume the social identity perspective advocated by Rowley and Moldoveanu (2003). These authors assert that an interest-based view of stakeholder action cannot explain, for example, why some stakeholders pursue lost causes. I submit that Rowley and Moldoveanu’s (2003) position stems from an unnecessarily

narrow view of the definition of “stakeholder interests.” This narrow definition of “interests” is implied when they state, “Despite the lack of material or pecuniary benefits, individuals may still participate in group action toward the focal organization.” Material and pecuniary benefits, though, only represent “extrinsic” rewards – those administered by entities outside the individual and not associated with the activity itself – thus, their definition of “interest” ignores another type of reward that has been identified in the equity theory and expectancy theory literatures, namely “intrinsic” rewards – those rewards, such as psychological gratification, that result merely from undertaking a given activity.

Rowley and Moldoveanu (2003) suggest that when one pursues a lost cause “the expected rational benefits of the action are negligible or negative” (Rowley & Moldoveanu, 2003: 208). However, if stakeholder interests are seen to include intrinsic rewards, pursuit of a lost cause can be seen as interest-based: in short, it is in the stakeholder’s interest to feel a sense of gratification, and acting, even in pursuit of a lost cause, can be a source of gratification. So, for example, the “feeling of solidarity” or “reinforcement of identity” with a group that Rowley and Moldoveanu (2003) argue can serve as bases for stakeholder action, if they are viewed as intrinsic rewards, become interests that the stakeholder might rationally pursue. As Powers and Thompson (1994: 190) note, “...voluntary participation in community-approved activities is often intrinsically satisfying.” If one views a stakeholder group as a “community,” participation in stakeholder action can easily be seen as providing valuable intrinsic rewards (as well as possible related or unrelated extrinsic rewards).

From this perspective, then, all stakeholder action taken in order to emphasize a social identity is, in the end, interest-based. Rowley and Moldoveanu’s (2003: 208) argument that “the rational pursuit of interests is not necessary for inciting (stakeholder) action” hinges on their lack

of acknowledgement that the bases for action they identify are, in fact, intrinsic rewards, and so represent interests. They note that “interest-based action is driven by the expected values and payoffs associated with the consequences of that action” (Rowley & Moldoveanu, 2003: 209), but fail to acknowledge the expected values and payoffs of identity-reinforcing actions.

A brief example may illuminate the argument. Rowley and Moldoveanu (2003: 211) ask the question, “Why... do some stakeholder groups refuse to relent in their protest campaign against a corporation’s pollution practices, even after the firm improves environmental controls in an attempt to mollify their concerns?” In answer to this question, they assert that continued protest 1) builds solidarity among group members, which facilitates a strong culture, which, in turn increases the salience of the group to the individual and further motivates them to participate, and 2) acts to confirm the individual identities of the people in the group, because one’s identity is, to an extent, formed through affiliation with various groups.

A second answer to the question acknowledges the outcomes of continued protest attested to by Rowley and Moldoveanu (2003), but also identifies them as valuable to members of the protest group. Put simply, individuals in the stakeholder group attach a positive value to feelings of solidarity and confirmations of their identities, both of which are provided by continued protest even though their initial demands have been met. Feelings of solidarity and feelings of confirmation of one’s identity are intrinsic rewards – they are a type of interest – and so it is perfectly rational for members of the stakeholder group to continue their action as long as it continues to allow them to address these interests (provided that the interests are valued highly).

Indeed, Rowley and Moldoveanu (2003: 211) come close to explicitly acknowledging the importance of intrinsic rewards. They state, “Group membership and the identity gained from this association are strongly related to value rationality – the pursuit of a cause or principle that

has intrinsic value independent of (and that may supersede) the related outcomes.” There is a “symbolic utility... associated with pursuing an action merely for the purpose of being able to credibly say one has, in fact, pursued it.” They further state, “groups who value the common identity and feeling of solidarity gained through participation in the group are motivated to act...” (Rowley & Moldoveanu, 2003: 211). It is clear that Rowley and Moldoveanu (2003) are not blind to the fact that it is *the value attached to the feelings of solidarity and common identity*, and not the solidarity and common identity themselves, that motivates stakeholder action in lost causes or where the stakeholder’s material interests have been met. As they themselves note, symbolic actions that confirm identity and promote group solidarity have their own utility. I believe that the utility associated with such symbolic actions represents a valuable intrinsic reward, and this utility can easily be incorporated into an interest-based model of stakeholder action. In short, stakeholders act to promote their interests, whether these interests are material or symbolic. While Rowley and Moldoveanu (2003: 215) state that stakeholders “may forego a rational assessment of net benefits associated with collective action, because they are motivated to express and be recognized for a particular identity garnered to those participating as members of the stakeholder group,” I assert that because these “expressions” and “recognitions” have value, they are indeed likely to be included in any assessment of the benefits of action by any “rational” stakeholder.

Based on the existing work in stakeholder theory, then, I assert that an elaboration of an interest-based model of stakeholder action incorporating motivation theories is warranted. First, such a model has not been *clearly* articulated in the literature, though an interest-based approach appears to underlie much of the work in the field. Second, I believe that the research concerned with stakeholder activity that does exist can be subsumed under an interest-based framework

employing equity theory and expectancy theory. Therefore, in an effort to shed light on the conditions that encourage stakeholder action, in the remainder of this dissertation I: 1) review the literatures concerning stakeholder theory, expectancy theory, and equity theory; 2) develop an equity- and expectancy-based framework for explaining stakeholder action; 3) present hypotheses concerning conditions that promote the likelihood of stakeholder attempts to impose sanctions upon (i.e., take action against) the FO; and 4) present the results of an empirical study designed to test those hypotheses.

## **1.5 CHAPTER SUMMARY**

In this chapter, I introduced my research question and evidence concerning the desirability of its investigation. In the next, I summarize the literature concerning stakeholder theory, as well as those concerning equity theory and expectancy theory, the two motivation theories I will be using to address the research question.

## **2.0 LITERATURE REVIEW**

In this chapter I will review the literature concerning the theories relevant to my study. First reviewed will be the stakeholder literature. I begin with some background on the development of stakeholder approach and definitions of the term “stakeholder,” after which I review the work on stakeholders using the typology developed by Donaldson and Preston (1995) as a means of categorization. I will then undertake to summarize the literatures concerning equity theory and expectancy theory: due to the vastness of these bodies of work I will focus on theoretical and empirical research relating to the development of the motivation models themselves. Very brief summaries of equity theory and expectancy theory are presented on pages 140 and 150 respectively.

### **2.1 STAKEHOLDER THEORY**

#### **2.1.1 Background**

In 1932, Merrick Dodd argued that the corporation is more than merely a profit-generating enterprise: it has a “social service” function as well. Furthermore, its managers’ powers are held in trust for the entire community, not just for shareholders. Later, Barnard (1938) argued that the interests of employees need to be considered in firm decisionmaking, Eells (1960) stated that the corporation was accountable to a variety of “sectors of society,” and Abrams (1951) identified employees, stockholders, customers, and the government as “corporate claimants.” These works can be seen as very early manifestations of a “stakeholder approach” to thinking about the firm.

Decades later, Freeman (1984) developed a similar concept in his book “Strategic Management: A Stakeholder Approach,” and thereby popularized the both the term and the idea among management scholars. In Freeman’s view, a firm is in relationships with a wide variety of constituents in its environment, and these “stakeholders” have claims on the firm that compete with the interests of stockholders. The purpose of a firm is, from this view, to consider, coordinate, and balance the interests of its stakeholders (Evan & Freeman, 1983; Gibson, 2000). Thus, in stakeholder theory, managers are seen as having duties not just to shareholders, but to a wide variety of individuals, groups, or organizations, such as employees, customers, suppliers, and the community. In order to be successful, managers must acknowledge and attend to the interests of this wide variety of constituents. By arguing for the recognition of a broad variety of constituents, the stakeholder approach expands the commonly held conception of who has a stake in or claim on a firm (Langtry, 1994).

In this view, corporations can thus be seen as existing for the purpose of facilitating the well-being of all stakeholders, not just that of owners (Evan & Freeman, 1983). There are instrumental as well as moral reasons for this position: if a stakeholder perceives that the decisions made by managers of the FO consistently favor a certain stakeholder (or subset of all stakeholders) it may be unwilling to do business with the FO (Jones, 1995; Ogden & Watson, 1999). Therefore, “an economically successful firm will necessarily be one in which senior management adopts... strategies and policies that facilitate the maintenance of an appropriate balance between different stakeholder interests (Ogden & Watson, 1999: 527). Moral arguments for a stakeholder approach to management, on the other hand, hinge on the idea that stakeholders’ interests have intrinsic value.

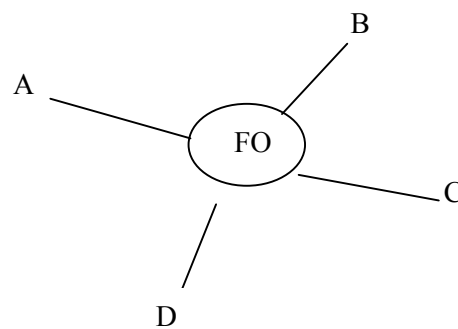


Stakeholder theory takes a systems view of organizations, accepting the premise that organizations must interact with their environments (Jonker & Foster, 2002). Since various constituents (i.e., stakeholders) in the FO's environment are seen as having an influence on and being influenced by the FO, the division between the business and its environment is less distinct from the stakeholder perspective (Bronn & Bronn, 2003). For example, Mitroff (1983: 7) states, "... a change in strategy for an organization... changes one or more relationships among the stakeholders. Hence every action is dependent on stakeholder properties and vice versa." The same author (1983: 38) goes so far as to define the organization in terms of its relationships with its stakeholders. He asserts, "The state of an organization at a certain point in time will be the result of the interaction of the behavior of all the organization's stakeholders from the beginning of its history up to a particular point in time."

In contemporary versions of stakeholder theory, the FO and/or its managers is usually seen as existing at the center of the relationships that exist between a firm and its various stakeholders (Driscoll & Starik, 2004). A typical "stakeholder map" is presented in Figure 2.1, with the letters A, B, C, and D representing various stakeholders: this view, with a FO maintaining dyadic ties with its various stakeholders, has dominated the stakeholder literature for some time. As noted by Waxenberger and Spence (2003), the lack of arrowheads in the depiction of the ties indicates that the stakes are "reciprocal" due to the fact that the FO and a given stakeholder are both capable of affecting one another: stakeholders have the potential to act in ways which influence the organization, and vice versa.

Stakeholder "theories of the firm" have been developed (e.g., Brenner & Cochran, 1991). Such theories are generally presented as alternatives to the "neoclassical economics" view of the firm, wherein the maximization of shareholder wealth is the sole goal of the firm, and managerial

decisions must be directed toward furthering the interests of shareholders (Kaler, 2003; Key, 1999). Donaldson and Preston (1995), for example, contrasted the stakeholder model of the firm with the “traditional,” input-output model. They assert that the traditional model implies that only advantaged contributors (e.g., shareholders) will receive rents, while other contributors (e.g., employees) will receive only “normal” rewards. In contrast, stakeholder theory, in its most rudimentary form, suggests that there is no particularly compelling reason why any one constituent should be treated any better than the others (Freeman, 1994; Goodpaster, 1991). Kochan and Rubinstein (2000) argue that “stakeholder firms” exist along a continuum from those that adopt the “stockholder primacy” model exclusively to those that are designed to “pursue different objectives of two or more stakeholders.” A stakeholder firm “is composed of legitimates, and gives voice to the existence of multiple interests, each of which has goals that must be satisfied” (Kochan & Rubinstein, 2000: 377).



**Figure 2.1: A Typical “Stakeholder Map” and a Generic Stakeholder Network**  
(Adapted from Rowley, 1997)

According to Donaldson and Preston (1995), twelve books and more than a hundred articles emphasizing the stakeholder concept were published in the decade following Freeman's (1984) book. The stakeholder approach has become a commonly used tool in strategic management (Langtry, 1994), and is a critical research framework in fields such as corporate social responsibility, business and society, and business ethics (Key, 1999; Phillips, 1997; Waxenberger & Spence, 2003). In the business world, the stakeholder approach is acknowledged by many as a key component in the management of the bottom line and the improvement of shareholder value (Waxenberger & Spence, 2003).

### **2.1.2 Stakeholders and Stakeholder Groups**

There is considerable variation in the literature concerning who or what constitutes a stakeholder (Kochan & Rubinstein, 2000), and a wide variety of definitions have been presented over the years. Stakeholders tend to be defined as such based on their "interests" (i.e., "shares" in an undertaking), "claims" (i.e., assertions of a title or right to something), or "power" or "influence" (i.e., the ability to have an effect on the FO) (Gibson, 2000). Definitions of the term "stakeholder" range from the extremely broad and inclusive to the relatively narrow and exclusive (Driscoll & Starik, 2004; McLarney, 2002). "Narrow" definitions of the term typically define stakeholders in terms of their relevance to the core economic interests of the firm or their moral claims, and acknowledge the fact that it is extraordinarily impractical to expect any organization to attend to all the claims various entities may make against it, while "broad" definitions acknowledge that firms can be substantially affected by or can have a substantial effect on nearly anybody (Mitchell et al., 1997): those defining the stakeholders of a FO must thus make a trade-off between inclusiveness and practicality. Various definitions of the term are summarized below.

**2.1.2.1 Broad Definitions.** Mitroff (1983: 4) states, “Stakeholders are all those parties who either affect or who are affected by a corporation’s actions, behavior, and policies.” Freeman (1984), Freeman and Gilbert (1987), Freeman and Reed (1983), and Mellahi and Wood (2003) adopt very similar definitions to this one. To Freeman (1984: 46), for example, a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives,” while for Mellahi and Wood (2003: 183), stakeholders are “all that might be affected by the firm’s activities.” While Freeman’s definition is widely used in the stakeholder literature, all of these definitions are perhaps broad to the point of impracticability: “can affect” and “is affected by” can, if common sense is not applied, lead to a situation where nearly everybody is regarded as a stakeholder of nearly every business (Langtry, 1994; Winn, 2001). Evan and Freeman (1983: 100) use this broad definition, but also present a narrower definition: stakeholders are “those groups who are vital to the survival and success of the corporation.” They also state that “stakeholders are those groups who have a stake in or claim on the firm.”

Gibson (2000: 246) presents other broad definitions, referring to stakeholders as “those groups or individuals with whom the organization interacts or has interdependencies” and “any individual or group with power to be a threat or benefit.” Mitroff (1983), too, acknowledges the importance of power in the definition of a stakeholder, asserting that stakeholders are all those interest groups, parties, actors, claimants, and institutions – both internal and external to the corporation – that exert a hold on it.

Mason & Mitroff (1981: 43) state that “stakeholders are all those claimants inside and outside the firm who have a vested interest in (a) problem and its solution”. Carroll (1993: 22) likewise uses a claim-based definition (though he uses the term “stake” rather than “claim”), describing stakeholders as “individuals or groups with which business interacts who have a

stake, or vested interest, in the firm.” Langtry (1994: 433) presents a rather complicated definition, stating “Stakeholders are groups or individuals who either are such that the firm’s decisions to act, or decisions not to act, have been or will be to a significant extent causally responsible for their level of well being, or else have some independently identifiable moral or legal claim on the firm which the firm’s actions violate or respect.” However, the author acknowledges that this definition requires substantial amounts of empirical information and moral reasoning to actually identify stakeholders.

**2.1.2.2 Narrow Definitions.** Narrow definitions of stakeholders also abound. Such definitions tend to be based on a stakeholder’s importance for the survival of the firm, or on the existence of a contractual relationship between the stakeholder and the FO. Freeman and Reed (1983: 91) present a narrow definition of a stakeholder as a group “on which the organization is dependent for its continued survival.” Bowie (1988: 112) refers to stakeholders as those “without whose support the organization would cease to exist.” Nasi (1995: 19) states that stakeholders “interact with the firm and thus make its operation possible.” Cornell and Shapiro (1987: 5) refer to stakeholders as “claimants” who have “contracts” with the FO. Freeman and Evan (1990) also view stakeholders as contract-holders. Mitchell, Agle, and Wood (1997) view Clarkson’s (1995) definition of a stakeholder as a “voluntary or involuntary risk-bearer” as a narrow definition, though it appears that the inclusion of involuntary risk-bearers makes the definition fairly expansive. Clarkson (1995) also states that stakeholders “have, or claim, ownership, rights, or interest in a corporation and its activities.”

**2.1.2.3 Ambiguous Definitions.** A number of researchers have presented definitions the breadth of which appear to be dependent on one’s interpretation of the terms included in the definition. For example, Alkhafaji (1989: 36) states that stakeholders are “groups to whom the

corporation is responsible,” Wicks, Gilbert, and Freeman (1994: 483) state that stakeholders “interact with and give meaning and definition to the corporation,” while Thompson, Wartick, and Smith (1991: 209) assert that stakeholders are those in a “relationship with an organization.”

**2.1.2.4 Primary and Secondary Stakeholders.** Some theorists distinguish between “primary” and “secondary” stakeholders (Carroll, 1993; Clarkson, 1995; Freeman, 1984; McLarney, 2002). To Freeman (1984), primary stakeholders are those whose continuing participation is necessary for the survival of the corporation, while secondary stakeholders are not necessary for firm survival (but may be able to inflict substantial harm on the firm nonetheless). Clarkson (1995) considers primary stakeholders to be those with whom the firm has a formal, official, or contractual relationship: all other stakeholders are secondary. This distinction is roughly the same as Freeman’s (1984) distinction between “direct” and “indirect” stakeholders. Some assert that managers need to consider the interests of both primary and secondary stakeholders, since either type can have substantial effects on the well-being of the firm (Gibson, 2000; McLarney, 2002). Others, however, argue for the application of a “restricted” form of stakeholder theory, wherein the firm should focus on meeting the needs of primary stakeholders (Mellahi & Wood, 2003).

**2.1.2.5 Stakeholder Groups.** Stakeholder “groups” are generally defined based on shared objectives and interests, “claims,” or “stakes” (Donaldson & Preston, 1995; Key, 1999; Welcomer, 2002; Winn, 2001). To Hill and Jones (1992: 133), stakeholders are “groups of constituents who have a legitimate claim on the firm,” and include stockholders, creditors, managers, employees, customers, suppliers, local communities, and the general public. These can be seen as representing many of the “generic” stakeholder groups that are often assumed in work concerning stakeholders. However, Winn (2001) argues that stakeholder groups are

socially constructed, their names and groupings being founded in culture and history, and argues that the assumption of the internal homogeneity of these generic stakeholders is inappropriate: in her opinion, treating generic stakeholders as if they are homogeneous is risky, since it is likely that there is substantial heterogeneity within groups, which can lead to wide variability in behaviors. This risk is exacerbated by the fact that many individual stakeholders have a multiplicity of interests and roles: they “wear many different hats,” and thus may not fit neatly into any single stakeholder group (McLarney, 2002; Winn, 2001). Winn (2001) asserts that definitions of stakeholder groups should be seen as “social working definitions,” “issue-specific” and “transient,” rather than “general” and “immutable.” Mark Starik, in Clarkson et al. (1994), takes an even more extreme position by stating that the definition of a stakeholder is itself inherently subjective, and is determined by the user of the concept.

Given that this dissertation is concerned with the behavior of all those entities that can take action against a FO and thereby influence or affect it, I employ a broad definition of the term “stakeholder” throughout in order to be as inclusive as possible. I resort, therefore, to Freeman’s (1984) definition of a stakeholder as any individual, group, or organization that can affect or is affected by the ongoing operations of the FO, and I take the position that both primary and secondary stakeholders are relevant for my discussion.

### **2.1.3 Donaldson’s and Preston’s Typology**

Donaldson and Preston (1995) assessed the stakeholder literature and distilled from it general categories into which the various “justifications” for the stakeholder approach fall. The result was their identification of stakeholder theory as “descriptive,” “instrumental,” and “normative.”

Donaldson and Preston’s (1995: 75) “descriptive justification” is rooted in the idea that “managers believe themselves, or are believed by others, to be practicing stakeholder

management.” They note that some empirical studies suggest that managers do, in fact, refer to certain practices as “stakeholder management.” Furthermore, they point out that U.S. legislation and courts now frequently recognize that the interests of various non-shareholder stakeholders can legitimately be taken into account in managerial decisionmaking. Donaldson and Preston’s “instrumental justification” for stakeholder theory relies on the idea that stakeholder management is related to organizational performance. They note that the idea that “good” stakeholder management is positively related to organizational performance has become pervasive. Lastly, Donaldson and Preston (1995) assert that the “core” justification of stakeholder theory is normative: it requires one to accept the premise that stakeholders should be identified according to their interests (or identify themselves according to their interests), and, more importantly, that those interests are, morally speaking, intrinsically valuable. This approach is derived from the fact that firms can have vast effects on the interests of its stakeholders (Berman, Wicks, Kotha, & Jones, 1999).

Recently, Donaldson and Preston’s (1995) three justifications of stakeholder theory have tended to be used as a typology for categorizing research in stakeholder theory rather than as justifications for the stakeholder approach to management. As a descriptive theory, stakeholder theory is a model that describes the nature of the organization and its relationships with its stakeholders, and is concerned with whether managers actually do take the interests of stakeholder into account (Gibson, 2000). Of interest are the organization as a “constellation” of cooperative and competitive interests – which contrasts with the “traditional, input-output” model of the firm (Donaldson & Preston, 1995) – and the management of those interests

As an instrumental theory, stakeholder theory develops a framework for assessing the relationships between stakeholder management and the goals of the business. This approach



hinges on the fact that stakeholders can have a great impact on whether or not a firm achieves its objectives (Berman et al., 1999). Generally speaking, this area of inquiry attempts to specify the types of outcomes that will be obtained if certain behaviors are taken with respect to the firm's stakeholders (Jones & Wicks, 1999). Typically, however, this work addresses a more specific topic: the performance implications of effective or ineffective stakeholder management (Gibson, 2000), and the usual premise adopted is that "good" stakeholder management leads to improved firm performance (Jones, 1995; Kassinis & Vafeas, 2002).

As a normative theory, stakeholder theory identifies ethical guidelines for how a firm ought to be run (Waxenberger & Spence, 2003), usually by identifying stakeholders and/or the ways in which they ought to be treated based on moral grounds. The underlying position is that stakeholders have legitimate interests in corporate activity which managers ought to take into account in their decisions (Donaldson, 1999), and the interests of shareholders need not take precedence over the interests of other stakeholders.

The following sections summarize key works in the stakeholder literature using Donaldson and Preston's (1995) typology as a means of organizing the literature.

#### **2.1.4 Descriptive Stakeholder Theory**

Descriptive stakeholder theory focuses on describing how firms and stakeholders interact in the world (Donaldson & Preston, 1995; Mellahi & Wood, 2003). Researchers in this area often adapt existing theories from organizational studies, such as agency theory, network theory, resource dependence theory, institutional theory, and others, to investigate firm-stakeholder relationships.

**2.1.4.1 Stakeholder Theories of the Firm.** Brenner & Cochran's (1991) stated goal was to describe how organizations operate by developing a "stakeholder theory of the firm." They thus see a "stakeholder approach" to firm operation as an accurate description. Brenner and Cochran (1991) develop several propositions describing the way firms operate. First, they assert that meeting the needs of at least some stakeholders is a necessary (but not necessarily sufficient) condition for firm survival. Furthermore, firms make choices that balance the interests of their various stakeholders. Brenner and Cochran (1991) assert that all firms are aware of these propositions to some degree; thus, all firms employ a stakeholder approach to their operations, though they may take drastically different approaches to the ways in which they prioritize stakeholders and balance their interests. Under this view, the neoclassical theory of the firm (i.e., a "stockholder primacy" approach to management) becomes one of an infinitely many possible approaches to stakeholder theory (Brenner & Cochran, 1991).

Hill and Jones (1992) developed what they call "stakeholder-agency theory" as a means of describing firm-stakeholder relationships. They view the firm as a "nexus of contracts" – both explicit and implicit, though primarily implicit – between managers and the firm's stakeholders. Heugens and van Oosterhout (2002) likewise argue that firm-stakeholder relations should be seen in "contractualist terms." For example, employees and suppliers likely have explicit contracts with the firm, while relationships with communities and customers are governed by legal standards such as tort law or regulation: the latter can be seen as social (and implicit) contracts (Key, 1999). Managers, as parties to contracts with all other stakeholders, and decisionmakers who must allocate resources among those stakeholders, can be seen as agents.

While they note that most stakeholders are not strictly "principals" in agency theory terms, Hill and Jones (1992) assert that there are substantial parallels between stakeholder-agent

relationships and the principal-agent relationships of agency theory, and view principal-agent relationships as a subset of stakeholder-agent relationships. Stakeholders provide the FO with various resources with the tacit understanding that the FO will protect its interests. According to stakeholder-agency theory, though, differences exist between management's and stakeholders' views of how the firm's resources should be allocated, which results in "utility loss" to the stakeholders when management fails to act in their interests. Stakeholders can use incentives, monitoring and enforcement mechanisms in an attempt to align managers' interests with their own and thereby reduce utility loss. The costs associated with incentives, monitoring, and enforcement that must be borne by the stakeholder, plus any residual utility loss, are referred to as "contracting costs" by Hill and Jones (1992), and are analogous to "agency costs" in agency theory. Stakeholders may require that managers bear "ex-ante bonding costs" to show commitment to their interests and demonstrate the managers' obligations. For example, Hill and Jones (1992) submit that introduction of an ex-ante warranty into a consumer's purchase of a product from a firm represents such a situation.

Hill and Jones (1992) note that a variety of institutional structures have been developed to facilitate stakeholders' monitoring of the FO. Some, such as the requirement for public companies to publish annual financial data, are legislated, while others, such as Consumer Reports, exist due to the potential profitability of finding, gathering, and analyzing data and reselling it to stakeholders. Still others, such as labor unions, are non-profit organizations that have been created in part to monitor the degree to which the FO is living up to its obligations with respect to specific stakeholders. All these approaches can result in a reduction in the utility loss to stakeholders.

**2.1.4.2 Stakeholder Identification and Salience.** Mitchell, Agle, and Wood (1997) use the concepts of “power,” “legitimacy,” and “urgency” to develop a theory of stakeholder identification and salience that addresses questions concerning who a manager should consider a stakeholder and which stakeholders receive managerial attention. They submit that a stakeholder has power to the extent that it can use coercive, utilitarian, or normative power to influence the firm. Mitchell et al. (1997) define legitimacy using Suchman’s (1995: 574) point of view: it is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” Urgency is defined as “the degree to which stakeholder claims call for immediate attention” (Mitchell et al., 1997: 869). Stakeholders possess from zero to three of these aforementioned attributes, and the presence or absence of the attributes determines the salience that the stakeholder will have to managers of the FO: the more attributes the stakeholder possesses, the more salient it will be (however, Driscoll and Starik (2004), argue that power, legitimacy, and urgency need to be viewed on continua rather than as either present or absent). All three attributes are “perceptual phenomena” and may be perceived differently by stakeholders, managers, or other entities in the environment of the FO. Mitchell et al. (1997) define seven types of stakeholder based on the various potential combinations of power, legitimacy, and urgency.

Aside from the identification of power, legitimacy, and urgency as important attributes in stakeholder identification and prioritization, the work of Mitchell et al. (1997) is noteworthy for capturing a dynamic aspect of stakeholder relations: power, legitimacy, and urgency are seen as varying over time, with the result that stakeholder management efforts by the FO may also vary.

Some researchers (e.g., Jonker & Foster, 2002) have noted shortcomings to the scheme of Mitchell et al. (1997). First, the attributes identified exist with respect to the stakeholder, the claim, and/or the relationship between the stakeholder and the FO, when, ideally, they should all be identifiable features of the stakeholder itself. Legitimacy can be seen as relating to the stakeholder itself or, alternately, to the claim made by that stakeholder, while urgency appears to refer only to a stakeholder's claim (rather than the stakeholder) and power can be seen as relating to the relationship between the stakeholder and the FO. Second, Mitchell et al. (1997) they appear to use the term "salience" to refer to both the degree to which the stakeholder is "noticeable" to managers of the FO and to the priority that managers of the FO grant in addressing the needs of the stakeholder. Third, the legitimacy attribute of Mitchell et al. (1997) has been the subject of criticism from some sources. Frooman (1999) argues that it may not matter if a stakeholder or its claim is legitimate: if the stakeholder is able to influence the FO, managers would do well to pay attention to it. This latter point leads Jonker and Foster (2002) to conclude that using legitimacy as a criterion that may exclude potential stakeholders is self-defeating. They furthermore state that the use of the legitimacy criterion is in fact an "exercise in power," since legitimacy is defined by powerful social actors and is usually based in economic rationalism.

The various issues associated with the model of Mitchell et al. (1997) can lead to some confusion in its interpretation and application. Nonetheless, Agle, Mitchell, and Sonnenfeld (1999) found empirical support for the attributes identified by Mitchell et al. (1997) in their test of a model based on power, legitimacy, and urgency. Their results supported the hypotheses that power, legitimacy, urgency, and the combination of the three attributes were all positively related to the managerial salience of various stakeholders, including employees, customers,

shareholders, government, and communities. Power was positively related to the salience of all these stakeholders except shareholders. Legitimacy was significant or marginally significant in its positive relationships with the salience of all stakeholders except government. Urgency was significantly and positively related to the salience of shareholders and governments, while the positive relationship between urgency and communities was marginally significant. In general, then, the results of Agle et al. (1999) appear to provide fairly substantial support for the importance of the attributes of Mitchell et al. (1997) in determining a stakeholder's salience to managers.

Further empirical evidence supporting Mitchell et al. (1997) comes from Winn (2001), who found evidence of the influence of urgency on decisions concerning the phasing-out of clear-cut logging by a forestry company. She reports that urgency also interrelated with changes in stakeholder legitimacy and power. Variations in the perceived legitimacy of environmentalists also appeared to influence how the FO dealt with the issue.

Driscoll and Starik (2004) extend Mitchell et al.'s (1997) concepts of power, legitimacy, and urgency, and, based on this extension, argue that the natural environment is a stakeholder. They submit (2004: 66) that "the lack of managerial salience attributed to the non-human natural environment can be partially explained by the way the stakeholder attributes of power, legitimacy, and urgency have been defined and operationalized." They argue that Mitchell et al.'s (1997) conception of power should be extended to include the concept of "pervasiveness," that is, the degree to which the impact of a stakeholder is dispersed over space and time. Regarding legitimacy, they suggest that the concept of "ecological" legitimacy should be included with in the definition of legitimacy presented by Mitchell et al. (1997). Lastly, they suggest that "likelihood of interaction" be included in the determination of urgency, in addition

to the factors suggested by Mitchell et al. (1997): time sensitivity and criticality. Based on their extensions of the concepts of power, legitimacy and urgency, they assert that the natural environment possesses power (e.g., resource limitations, natural disasters), legitimacy (e.g., in that it provides resources to the firm), and urgency in its claims, and therefore should be considered a stakeholder.

Jonker and Foster (2002), like Driscoll and Starik (2004), use the term “criticality,” but use it basically as a slightly broader version of Mitchell et al.’s (1997) “urgency.” These authors refer to an issue as critical if it is significant or momentous, or is a “defining moment.” They note that a particular issue may suddenly become very critical in the minds of some groups or individuals, at which point they may become involved in stakeholder relationships with the FO. They suggest that a “criticality threshold” must be met before a stakeholder is willing to expend the resources to get involved in any particular issue.

**2.1.4.3 Stakeholder Influence on the FO.** Stakeholders may exert various types of power in order to influence the FO. Freeman and Reed (1983) identified three types of stakeholder power: formal, or voting power; economic power; and political power. Formal power is possessed only by those stakeholders who have an official corporate governance position with respect to the FO. For example, many shareholders are allowed to cast votes on corporate issues: likewise, boards of directors, on which some stakeholders may be represented, possess formal power. Stakeholders who can “affect the company’s cost and revenue structure” have economic power (Wartick & Wood, 1998). Typical stakeholders with economic power therefore include customers, creditors, suppliers, and employees. Political power is held by stakeholders who have access to the public policy process, and can thereby influence the FO by influencing public

policy. The type of power possessed by a stakeholder can have a substantial influence on how that stakeholder can best be dealt with by the FO.

Frooman (1999) developed a typology of influence strategies that stakeholders might use to affect the behavior of the FO. He asserts that the type of influence strategy a stakeholder will use is determined by the degree of resource dependence the FO exhibits with respect to that stakeholder (and vice versa). Resource dependence occurs when either the FO or the stakeholder supplies the other with essential, non-substitutable, or rare resources. Frooman (1999) identifies “withholding strategies” as those in which a stakeholder attempts to influence the FO by discontinuing the provision of such a resource. “Usage strategies,” on the other hand, involve the stakeholder influencing the ways in which the FO is able to use the resource: typically, this involves attaching conditions to the use of the resource. Both of these strategies can be “direct” or “indirect.” In a direct strategy, the stakeholder itself manipulates the provision or usage of the resource, whereas in an indirect strategy the stakeholder influences the FO through another stakeholder, an ally that manipulates the resource flow or usage. Frooman (1999) asserts that indirect strategies require a great deal of communication and coordination, and so are difficult to sustain. Frooman’s (1999) typology suggests that when the FO is dependent upon the stakeholder, but the reverse is not true, the stakeholder will use a direct/withholding strategy. When the stakeholder is dependent upon the FO, but not vice versa, an indirect/usage strategy will be employed. When neither the FO nor the stakeholder is dependent upon the other, an indirect/withholding strategy will be used, while when the stakeholder and the FO are mutually dependent, the stakeholder will resort to a direct/usage strategy.

Frooman (2002) tested hypotheses related to his typology. Results indicated that the degree of firm dependence on the stakeholder was not, in fact, related to the pathway of the



influence strategy employed by the latter: almost without exception, an indirect strategy was preferred, regardless of the nature of the firm-stakeholder relationship. Regarding the stakeholder's resource dependence on the firm, Frooman (2002) found that stakeholder dependence was, for three of four measures, related to the subjects' preferences for manipulation strategies (i.e., usage versus withholding strategy): subjects preferred a withholding strategy when the stakeholder's resource dependence on the firm was low, and preferred a usage strategy when the stakeholder's resource dependence was high.

Frooman and Murrell (2005) employed Frooman's (1999) typology in an experimental setting to assess the roles of structure and demographic variables in the determination of stakeholder influence strategies. Their results led them to suggest that demographic variables define the repertoire of influence strategies available to the stakeholder, while structural choices refine the choice of influence strategy within that repertoire.

Brouthers and Bamossy (1997), using case studies, also investigated approaches that stakeholders use to influence the FO, specifically during joint venture negotiations. They suggest that stakeholders have both direct and indirect influences on joint venture negotiations, and key stakeholders tend to undertake different influence strategies at different stages of the negotiation process. They also assert that key stakeholders in different industries may differ in terms of the extent and frequency with which they attempt to influence the FO.

Luoma and Goodstein (1999) applied concepts from institutional theory to investigate stakeholder representation on corporate boards, a critical means of stakeholder influence. Stakeholder representation on boards represents way to formalize the acknowledgement of non-economic considerations in the decisionmaking process, and a means to facilitate procedural fairness by guaranteeing representation of stakeholders' concerns (Freeman & Evan, 1990).

Stakeholder representation may also represent a means for a stakeholder to achieve legitimacy in the eyes of corporate representatives and the public, or a manifestation of an existing perception of legitimacy. Luoma and Goodstein (1999) suggested that stakeholder representation on boards should vary with the state of incorporation, since some states have adopted “other-constituency” statutes that allow boards to consider the interests of non-shareholder stakeholders in their decisionmaking, while others have not. They also suggested that non-shareholder board representation is more likely in highly regulated industries and in large corporations. Using a sample of 224 companies, they found support for six of nine hypotheses related to these propositions, indicating, generally, that institutional context indeed has an influence on the degree of non-shareholder stakeholder board representation.

Kassinis and Vafeas (2002) tested hypotheses concerning the relationship between stakeholder pressures and the likelihood of environmental litigation. Their results indicated that stakeholder pressures were a weak deterrent of poor environmental performance (as measured by environmental litigation). This result appears to suggest that stakeholder attempts to influence the FO are not necessarily effective in getting the FO to sufficiently address its interests. However, they note that this result may have been due to measurement problems.

Clarkson (1995) asserted that different organizations will have different “postures” in terms of how they respond to stakeholder attempts to influence the FO. Postures were characterized as “reactive,” wherein the FO will deny its responsibilities to stakeholders, “defensive,” wherein it will admit responsibility, but fight to avoid them, “accommodative,” wherein the FO accepts its responsibilities and addresses them willingly, and “proactive,” wherein it will attempt to anticipate its responsibilities to its stakeholders.

**2.1.4.4 Stakeholder Networks and Stakeholder Influence.** In the stereotypical stakeholder map (e.g., Figure 2.1), it is not usual to depict links between the various stakeholders of the FO (Waxenberger & Spence, 2003), though early work in stakeholder theory identified the fact that there is a network of interdependencies among stakeholders. For example, Mitroff (1983: 43) stated,

“In a complex social system, each stakeholder is tied to or dependent upon at least one other important social system stakeholder for its existence and/or functioning... We are truly dealing with a network or a system of behavior.”

However, subsequent work did not initially develop the idea of stakeholder networks further. Rowley (1997) saw this as a major shortcoming in stakeholder theory, and so employed network theory to increase the accuracy of descriptions of stakeholder-FO interactions. He eschewed Freeman’s (1984) “hub-and-spoke” conception of stakeholder-FO relationships, wherein the FO is seen as having a dyadic relationship with each stakeholder. Instead, he reasserted the notion that firms and stakeholders exist in networks, and proposed that the nature of this network has implications for the FO’s ability to resist stakeholder pressures.

Rowley (1997) employs two key concepts from network theory: “density” and “centrality.” Density refers to the number of ties in the network that link actors (i.e., stakeholders) together. It is usually calculated as a ratio of the number of relationships that exist in the network compared with the total number of possible relationships. Rowley (1997) asserts that as the density of a stakeholder network increases, communication across the network is enhanced, and the ability for norms of behavior to be communicated among stakeholders is increased. Thus, as density increases, stakeholder behaviors become similar within the network and stakeholders are more likely to have similar expectations regarding the behavior of the FO. Enhanced communication across the network also facilitates the monitoring of the FO’s behavior

by stakeholders. He suggests that these features of dense stakeholder networks imply that increases in stakeholder network density increase the ability of stakeholders to constrain the actions of a FO.

Rowley (1997) also focuses on the centrality of the FO in the stakeholder network, which refers to the FO's position in the network relative to other actors. He relies on "betweenness" centrality, which is "the extent to which (the FO) acts as an intermediary between its stakeholders (Rowley, 1997: 900). A highly central FO has substantial control over information flows between stakeholders due to its position in the network. Rowley (1997) therefore states that a high degree of centrality increases the FO's ability to resist stakeholder pressures.

By combining his propositions concerning density and centrality, Rowley (1997) develops a typology of firm responses to stakeholder expectations: compromiser (the FO negotiates with its stakeholders), commander (the FO controls stakeholder expectations), subordinate (the FO complies with stakeholder expectations), and solitarian (the FO attempts to avoid stakeholder pressures). Rowley (2000) tested various hypotheses related to Rowley (1997) using a sample of strategic alliances in the semiconductor industry. Findings indicated that density and centrality were indeed related to a FO's resistance to stakeholder pressures.

Rowley (1997) did not address the impact of the strength of stakeholder network ties on stakeholder influence on the FO. Welcomer (2002), however, in a single-industry case study of the forest products industry in Maine, investigated tie strength between FOs and their stakeholders and found that tie strength was positively related to the potential of the stakeholder to positively influence the FOs practices or access to resources. Tie strength was also positively related to the potential of the stakeholder to have a negative influence on the FO. Welcomer (2002) also found evidence that the FO's degree of corporate social responsiveness was related

to tie strength between FO and stakeholder: the presence of strong ties increased with increases in corporate social responsiveness regarding a particular stakeholder.

### **2.1.5 Normative Stakeholder Theory**

Much of the literature in stakeholder theory concerns its normative perspective. Donaldson and Preston (1995: 87) state that, rather than taking an instrumental approach in addressing (or not addressing) stakeholders' interests, managers "should acknowledge the validity of diverse stakeholder interests and should attempt to respond to them within a mutually supportive framework, because that is a moral requirement for the legitimacy of the management function." Jones and Wicks (1999) identify the idea that stakeholders should be treated as "ends" rather than "means" as a theme underlying the work in normative stakeholder theory. In the normative view, then, stakeholders and their interests are intrinsically valuable, and so should be acknowledged in the firm's activities.

In providing a normative justification for stakeholder theory, the stakeholder approach is often pitted against the neoclassical economic, or shareholder-centered model of the firm, in which the role of managers is to maximize shareholder wealth (Friedman, 1962; Ruf, Muralidhar, Brown, Janney, and Paul, 2001; Rowley, 1998; Wijnberg, 2000), and is argued to be the morally superior position. The normative justification for stakeholder theory therefore also relies on philosophical concepts (Mellahi & Wood, 2003): ideas such as fairness, social contract theory and the works of Immanuel Kant and John Rawls have been applied to the stakeholder approach to provide its moral foundations (Donaldson & Preston, 1995; Evan & Freeman, 1983; Freeman, 1994; Phillips, 1997). Work in this area typically attempts to answer questions regarding who should be considered a stakeholder, and on what bases (e.g., Phillips, 1997), as well as how stakeholders should be treated, especially relative to shareholders (e.g., Freeman &

Evan, 1990; Freeman, 1994; Goodpaster, 1991; Jones & Wicks, 1999). I address work concerning these questions in the following sections.

**2.1.5.1 Who Should Be Considered a Stakeholder?** Freeman (1984) and others specifically identify suppliers, customers, employees, stockholders, management, and the local community as stakeholders of the firm. Others have argued that this list is incomplete: for example, Driscoll and Starik (2004) argue for consideration of the natural environment as a stakeholder of all organizations. Various researchers have applied principles such as “fairness” and “claims” or “rights” to address the parameters for who or what should be considered a stakeholder.

**2.1.5.2 Principles of Fairness.** Phillips (1997; 2004) focuses on fairness obligations to determine who should be considered a stakeholder. He proposes the “Principle of Fairness” as a means of differentiating between stakeholders and non-stakeholders and justifying stakeholders’ claims. The Principle of Fairness states that:

“Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of cooperation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free riding, there exist obligations of fairness on the part of these persons or groups to cooperate in proportion to the benefits accepted.”

Phillips asserts that the Principle of Fairness provides a normative justification for stakeholder theory (and the claims of stakeholders). In this view, the FO and its stakeholders are seen as persons or groups involved in a cooperative scheme that involves the voluntary receipt of benefits (at least on the part of the FO). This voluntary acceptance of benefits by the firm implies that the FO has an obligation to the cooperative scheme itself and to the other participants in that scheme (i.e., the firm’s stakeholders).

In terms of stakeholder identification, Phillips (1997) argues that only voluntary members of a cooperative scheme for mutual benefit are stakeholders. Thus, for example, terrorists are not

stakeholders, despite the fact that they fit the “broad” definition of a stakeholder as an entity that can affect or is affected by the firm. Another implication of Phillips’ (1997) position is that stakeholders who cannot affect the firm, but who are affected by it, can be considered stakeholders.

**2.1.5.3 Stakeholder Claims and Rights.** Waxenberger and Spence (2003) identify stakeholders based on the presence of legitimate “claims,” which they argue are a source of stakeholder “rights.” They differentiate between the term “stakeholder,” which they use to suggest a strategic implication, and “claimholder,” which they use when the focus is “legitimacy.” In their view, the rights of claimholders should be distributed based on the legitimacy of their claims, not based on power, and corporations should listen to and address the needs of those entities that possess legitimate claims. Thus, their approach appears to focus on the legitimacy criterion noted by Mitchell et al. (1997), while downplaying the power and urgency criteria. To Waxenberger and Spence, (2003: 244), stakeholder management, as it stands, is strictly instrumentalist; that is, dealing with stakeholders is viewed by managers as a means to an end. It therefore “degrade(s) the single claimholder who is a human being with a legitimate claim...” and aims merely to keep a potential opponent quiet rather than to address the implications of that legitimate claim. “Claimholder management,” on the other hand, is concerned not with reducing the risk of potential conflict, but with upholding and protecting legitimate rights, a position that Waxenberger and Spence (2003) submit is easily defended using ethical theories. In addressing the question of how the legitimacy of claims is to be determined, they assert that we rely on the public to make such determinations. Waxenberger and Spence (2003) argue that their approach is in accordance with Kant’s Categorical Imperative, which

asserts that people must be treated as ends unto themselves, not merely as means to another's end.

Waxenberger and Spence (2003), however, suggest that while legitimacy is the critical criterion for stakeholder identification, a firm may, for practical reasons, be limited to addressing the interests of a few key stakeholders, though the authors stipulate that the firm must keep suitable structures in place to identify the important legitimate claims of other stakeholders. They suggest three criteria for identification of key stakeholders: the severity of the effect that the firm's operations have on the stakeholder, the "moral preferences" of the firm, and the influence the stakeholder has on the firm.

**2.1.5.4 Harm-Based Identification.** Donaldson and Preston (1995), use their normative justification of stakeholder theory to make assertions concerning the identification of stakeholders. They assert that, given their normative approach, management needs to identify stakeholders beyond those implied by the traditional input-output or "firm-as-contract" models of organizations (i.e., those that have identifiable legal contracts with the firm). Donaldson and Preston (1995) state that such conceptions of the firm do not go far enough in identifying stakeholders. Some interactions with entities in the business environment are too ambiguous to be expressed as contracts but, they assert, are no less real. They suggest that stakeholders should be identified by the "actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions" (Donaldson & Preston, 1985).

**2.1.5.5 The Environment as a Stakeholder.** Starik (1995) argued that the non-human environment should be considered one or more stakeholders. The environmental principle that humans should be stewards of natural resources suggests that organizations have obligations with respect to the environment; therefore, the natural environment warrants stakeholder status.



Furthermore, human proxies for the natural environment, such as environmental groups, are seen by Starik (1995) as necessary but not sufficient for its well-being.

Phillips and Reichart (2000) use Phillips' (1997) Principle of Fairness to address the question of whether or not the natural environment should be considered a stakeholder. They conclude that, using a fairness-based approach, only humans can be stakeholders, since only humans are able to create the obligations that are required for the establishment of stakeholder status through the acceptance of the benefits of a mutually beneficial cooperative scheme. They suggest, however, that there are various non-stakeholder-related reasons for consideration of the natural environment by organizations: that is, even if the environment is not a stakeholder, firms should act to conserve and preserve the natural environment. Furthermore, many organizational stakeholders have legitimate concern for the natural environment: preservation of the natural environment is in accordance with the interests of such stakeholders. Therefore, in considering the interests of these stakeholders, organizations will consider its impacts on the natural environment in its decisions. For example, in considering the interests of the community in which it operates (a key stakeholder), an organization must obviously consider that community's natural environment.

Driscoll and Starik (2004) counter Phillips and Reichart (2000), suggesting that the fairness-based approach to identification of stakeholders is inappropriately narrow, and assert that other criteria may also be relevant to determining whether or not an entity is a stakeholder. Specifically, they suggest that spatial and cultural "proximity" are relevant criteria, since as proximity increases, interactions between the FO and the other entity become more and more unavoidable; that is, the likelihood of "stakeholderhood" increases. As noted earlier, Driscoll and

Starik (2004) extended the criteria developed by Mitchell et al. (1997), and argued that doing so allows one to regard the natural environment as a stakeholder.

**2.1.5.6 How Should Stakeholders be Treated?** The moral underpinning of the obligations concerning how a FO should treat its stakeholder is usually presented in deontological terms, employing ideas like respect for persons, fairness, obligations to others, and/or rights (Gibson, 2000). Jones and Wicks (1999), aver that the variability of “narrative interpretation” in normative stakeholder theory implies that it is actually concerned with the development of *various* stakeholder theories, each with a distinct “normative core.” This echoes the position of Freeman (1994), who, suggests that stakeholder theorists should avoid over-specification of the normative content of the area, and likewise asserted that stakeholder theory can be “unpacked” into a number of stakeholder theories, each of which has its own normative core linked to the way managers should behave and firms should be run. Such an approach Freeman (1994: 414) refers to as “reasonable pluralism.” Any approach to stakeholder theory that attempts to prescribe only one normative core is, to Freeman (1994: 415), “at best a disguised attempt to smuggle a normative core past the unsophisticated noses of other unsuspecting academics...” Each normative core is, according to Freeman (1994), a set of propositions that include:

1) “Corporations ought to be governed...”

2) “Managers ought to act...”

The ends of these sentences comprise “business and moral terms” (Freeman, 1994: 414), and will vary across normative cores. Various normative foundations for stakeholder relations are discussed below.

**2.1.5.7 Limited Property Rights.** Donaldson and Preston (1995) drew on the concept of limitations of property rights for their normative justification of the stakeholder approach. They assert that property rights are embedded in human rights, and are therefore restricted: for example, there are restrictions on harmful uses of property. They assert that property rights “must be based on more fundamental ideas of distributive justice... utilitarianism... libertarianism... social contract theory” and argue that since the concept of private property does not give unlimited rights of use to owners of property, it does not support the idea that the sole responsibility of managers is the act as agents of shareholders (and, presumably, attempt to increase shareholder wealth). If one accepts their view, they assert, the interests of non-shareholder stakeholders must be taken into account in managerial decisionmaking. This is similar to the view of Berle and Means (1932), who argue that because shareholders could not adequately undertake, with respect to the firm, all the responsibilities that ownership of other types of property implies, they should not be given all the rights normally associated with ownership. This, they state, clears the way for acknowledging and addressing of the claims of various non-shareholder constituents in the business environment.

**2.1.5.8 Principles of Fairness.** Phillips (1997) also applies his Principle of Fairness to address obligations of the FO with respect to its treatment of stakeholders, stating that it facilitates prioritization of their various interests by identifying the degree of obligation a firm has to a given stakeholder. According to the Principle of Fairness, firms should “cooperate” with stakeholders in proportion to the benefits accepted from them in the firm-stakeholder “mutually beneficial scheme of cooperation.” Therefore, a firm should take more care to safeguard the interests of a stakeholder from whom it receives substantial benefits than those of one from whom it receives little or no benefit.

**2.1.5.9 Kantian Capitalism.** Evan and Freeman (1983) developed what they call “Kantian Capitalism. They view the “stockholder view” of the firm as “incoherent,” and so present two normative principles concerning stakeholder management. The “Principle of Corporate Legitimacy” states that “The corporation should be managed for the benefit of its stakeholders...” and advocates the protection of stakeholder rights and the inclusion of stakeholders in decisions that have a significant impact on them. Their “Stakeholder Fiduciary Principle” states that managers have a fiduciary relationship with all their stakeholders as well as with the corporation itself. Therefore, managers must act in the interests of stakeholders, and act to ensure the survival of the firm.

**2.1.5.10 Fair Contracts.** Freeman (1994) and Freeman and Evan (1990) attempted to craft a normative core based on the political liberalism of John Rawls (1971), wherein autonomy, solidarity, equality and fairness are emphasized. They assert that both managers and scholars still tend to adhere to the premise that stockholders have a special relationship with the firm and its managers – to the premise of stockholder primacy. However, the pursuit of stockholder interests is constrained by law, which indicates that non-shareholder stakeholders have at least some rights with respect to the firm. Freeman (1994), therefore, argues that, just as stockholders have the right to make certain claims on a firm, so, too, do other stakeholders (defined “narrowly” in this case) have the right to make claims. Freeman’s (1994) position is that managers have a fiduciary duty to non-shareholder stakeholders, and no one stakeholder has primacy over others. All stakeholders, which he views as “contractors” with the FO, are presumed to be equal in terms of the moral obligations the FO has toward them (though the specific obligations will, of course, vary widely across stakeholders). In line with the position of

Rawls, though, inequalities among stakeholders can be justified if they improve the lot of the least well-off stakeholders.

Freeman and Evan (1990) and Freeman (1994) use Rawls' (1971) "veil of ignorance" to develop basic rules for contracting between firms and stakeholders, based on the assumption that rationally self-interested stakeholders deliberating behind a veil of ignorance (i.e., in ignorance of their own actual stakes) would adopt principles of fair contracting that would require stakeholder-focused management and stakeholder representation on boards of directors. The principles, which are referred to as the "Doctrine of Fair Contracts," are presented in Table 2.1, as are three additional principles which Freeman (1994) argued should guide legal reform.

Child and Marcoux (1999) reject the position of Freeman and Evan (1990) and Freeman (1994). Their rejection hinges on, among other things, what they perceive as a misuse of the work of Rawls (1971). Child and Marcoux (1999) argue that the stakeholders in Freeman and Evan's (1990) work are very knowledgeable about their own circumstances (for example, they must have knowledge of the nature of firms, markets, private property, and contracts in order to understand what a "stake" in a corporation represents), a fact which makes them much more knowledgeable than the individuals deliberating behind the veil of ignorance in Rawls' work.

Child and Marcoux (1999) also state that the degree and kind of knowledge possessed by stakeholders behind the veil of ignorance is completely arbitrary and incoherent. They furthermore argue that, even if stakeholders were subjected to the veil of ignorance, they would not necessarily choose the principles developed by Freeman and Evan (1990). By way of example, they use a "Hawaiian shirt" scenario to counter Freeman and Evan's (1990) Principle of Externalities. They assert that simply because someone who finds Hawaiian shirts abhorrent bears the negative externality associated with walking past the Hawaiian shirt shop that Person B

**Table 2.1: The Doctrine of Fair Contracts (Freeman & Evan, 1990; Freeman, 1994)**

<b>Principle</b>	<b>Explanation</b>
The Principle of Entry and Exit	Any contract must have clearly defined entry, exit, and renegotiation conditions, or methods or processes for defining these conditions.
The Principle of Governance	The procedure for changing the rules of the game must be agreed upon by unanimous consent.
The Principle of Externalities	If a contract between A and B imposes a cost on C, then C has the option to become a party to the contract.
The Principle of Contracting Costs	All parties to the contract must share in the costs of contracting.
The Agency Principle	Any agent must serve the interests of all stakeholders.
The Principle of Limited Immortality	The corporation shall be managed as if it can continue to serve the interest of stakeholders through time.
<b>Additional Principles (Freeman, 1994)</b>	
The Stakeholder Enabling Principle	Corporations shall be managed in the interests of their stakeholders, defined as employees, financiers, customers, employees, and communities.
The Principle of Director Responsibility	Directors of corporations shall have a duty of care to use reasonable judgment to define and direct the affairs of the corporation in accordance with the stakeholder enabling principle.
The Principle of Stakeholder Recourse	Stakeholders may bring action against the directors for failure to perform the required duty of care.

runs in a space rented from Person A does not mean that the first person should have the option of becoming a party to the contract, as this would lead to contracting becoming very risky, which would have severe economic consequences. Therefore, rationally self-interested stakeholders behind the veil of ignorance would not choose the Principle of Externalities. Furthermore, they assert that stakeholders would not want such involvement in the contracts of others, since a given

person is likely to be a stakeholder in dozens of firms. Child and Marcoux (1999) use similar examples to argue against other of the principles of Freeman and Evan (1990). Another argument made by Child and Marcoux (1999) against Freeman and Evan's (1990) position concerns the practical implication of the principles they advocate: board representation for stakeholders. Such representation is supposed to represent a safeguard for a given stakeholder against detrimental actions by groups of other stakeholders. Child and Marcoux (1999) note that Freeman and Evan (1990) do not present an argument as to why board representation is a necessary condition for the protection of stakeholders. Furthermore, they assert, in many cases stakeholders would not want board representation were it a possibility, since the costs of participation may be high (especially if one is a stakeholder in many organizations), and some enterprises beneficial to stakeholders would, in fact, be harmed if all those affected had a voice in key decisions. In the words of Child and Marcoux (1999: 219) "... many classes of stakeholder would simply tune out and they would be rational to do so."

**2.1.5.11 Fiduciary Duties and the Stakeholder Paradox.** Goodpaster (1991), too, opposes the position of Evan and Freeman (1983) and Freeman (1994), especially the idea that managers have a fiduciary duty to non-shareholder stakeholders. He differentiates between "strategic" and "multi-fiduciary" interpretations of "stakeholder analysis." The strategic interpretation is essentially an instrumentalist approach to stakeholder relations: stakeholders are to be managed by the firm in order to achieve the goals of its managers and shareholders. The multi-fiduciary interpretation, on the other hand, states that managers have a fiduciary duty not just to shareholders, but to all stakeholders, and stakeholders are not merely a means to the firm's ends. This approach is evident in the work of Freeman (1994).

In a multi-fiduciary approach to stakeholder relations, managers would give the same amount of concern to the interests of non-stockholder stakeholders as they would to stockholders. Put another way, the interests of all stakeholders would be regarded as equally important. Goodpaster (1991) asserts that a multi-fiduciary approach – though many argue it would bring ethics into corporate decisionmaking – is incompatible with widely held opinions concerning the special fiduciary obligations that are owed to shareholders due to their position of ownership with respect to the firm, and management’s role as their agent: the common-law position is that managers and directors are fiduciaries of shareholders, and therefore are obligated to operate the firm in shareholders’ interests (Boatright, 1994). Goodpaster (1991) states that the obligations of managers to shareholders are, therefore, ethically different from their obligations to other stakeholders, and argues that regarding stakeholder-firm relationships in the same way as one regards stockholder-firm relationships creates as much of a problem as ignoring non-stockholder stakeholders completely. This idea he refers to as the “stakeholder paradox.”

“It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones.”  
(Goodpaster, 1991)

Thus, according to Goodpaster, (1991), ethics seems to both prescribe and prohibit the acceptance of profit-maximization as the sole goal of firms: management is forced to choose between fulfilling its fiduciary duties and serving the interests of other stakeholders (Marens & Wicks, 1999). Managers have a fiduciary responsibility to stockholders, so a multi-fiduciary approach represents a betrayal of trust (Goodpaster, 1991), or, Friedman (1962) might argue, unabashed theft. Goodpaster (1991), therefore, argues that a multi-fiduciary approach is inappropriate, but states that there are “morally significant” non-fiduciary responsibilities that managers have toward non-stockholder stakeholders. These responsibilities are summarized in



his “Nemo Dat Principle,” which essentially states that investors cannot expect managers to behave in ways that are inconsistent with the reasonable ethical expectations of the community, nor should they expect managers to behave in ways that they themselves would not be willing to behave. While this principle provides some justification for the acknowledgment of the interests of various stakeholders, it in many ways resembles Friedman’s (1962) position that managers should maximize profits “within the rules of the game” and within the bounds of contemporary ethical views.

Marens and Wicks (1999) counter that, historically, the fiduciary obligations of management have not been imposed in order to give stockholders a privileged status with respect to other stakeholders; rather, these obligations were created in order to prevent self-dealing by directors and top managers, and to promote the exercise of care, loyalty, and honesty with respect to stockholders’ financial interests. The goal, they submit, was to prevent managers from making business decisions that were primarily in their own interests or the interests of their colleagues. They argue that the relationship between stockholders and managers is not an agency relationship: in an agency relationship, one is obligated to act in the interests of a person, whereas in a fiduciary relationship, one is only obligated to protect a person’s investment.

Marens and Wicks (1999) assert that fiduciary duties do not impose any particular mode of business operation, and such duties are not equated by any courts with the maximization of shareholder wealth. They conclude, based on case law, that the fiduciary obligations that managers have with respect to stockholders do not, practically speaking, present a substantial impediment to the implementation of a stakeholder-oriented management approach. Furthermore, they submit that the managerial obligations that arise from fiduciary duties to shareholders are not more important than the obligations that would be due to shareholders in a

stakeholder-oriented scheme. They argue that there is no reason to assume that the fact that managers have certain duties to one type of stakeholder acts as a relevant constraint on how the law lets them treat other stakeholders. In short, the realities of the law do not in any way preclude managers from acting *as if* they had fiduciary duties to both shareholders and other stakeholders. Thus, to Marens and Wicks (1999), the stakeholder paradox does not exist, and managers in fact have substantial freedom to address the interests of various stakeholders concurrently.

Boatright (1994) goes further than Marens & Wicks, arguing that managers do not have a fiduciary duty to shareholders to operate the firm in their interests, and that the FO's relationships with shareholders is not ethically different from its relationship with other stakeholders. He also sees Goodpaster's (1991) solution to his "stakeholder paradox" as inadequate, and so presents an alternative solution.

Boatright (1994) asserts that the most common argument in favor of the idea that managers have a fiduciary duty toward stockholders is that the latter's property rights regarding the corporation can only be protected by the existence of duties that require managers to act in shareholders' interests. However, he points out that there is a logical gap between the property rights of shareholders and the idea that managers therefore have a fiduciary duty toward them. He asserts that ownership of a corporation is different from the ownership of personal property: for example, stockholders cannot use corporate assets for their own purposes. While Boatright (1994) concedes that shareholders need to have their investments protected (which, according to him, was the initial reason for the idea of fiduciary duties owed to owners of a business), and therefore need a governance structure that looks after their interests, this argument does not

substantiate the claim that managers have a fiduciary duty to shareholders, and to shareholders alone.

Boatright (1994) also identifies agency relationships between managers and shareholders as another possible source of fiduciary duties with respect to shareholders. However, he, like Marens and Wicks (1999), submits that there is no explicit contract that is a source of such an agency relationship, and that the lack of interaction between managers and the typical shareholder makes it difficult to assert that there is an implied contract between the two.

Boatright (1994) concludes that managers are not legally in contractual or agency relationships with shareholders, and that there are no good ethical reasons for assuming this to be true. On these grounds, Boatright (1994) dismisses Goodpaster's (1991) argument that the shareholder-manager relationship is a purely fiduciary one; hence managers do not have purely fiduciary duties with respect to shareholders.

Boatright (1994) offers a different solution to Goodpaster's "stakeholder paradox." Goodpaster (1991) appears to believe that *all* duties to shareholders are fiduciary in nature. Boatright (1994) responds by arguing for the decomposition of the duties managers have with respect to shareholders into those that are fiduciary in nature and those that are not. Fiduciary duties owed to shareholders are rather limited in scope, so in the "ordinary conduct of business" the interests of non-shareholder stakeholders may, in fact, be taken into account by managers. From this approach, the stakeholder paradox ceases to exist, since moral considerations do not necessarily demand the use of a profit-maximization framework in managerial decision-making.

Freeman (1994), in response to Goodpaster's (1991) work, asserted that the existence of a perceived "stakeholder paradox" was inherently linked to "the separation thesis," the idea that business and ethics are separate, a position that both asserts and acts to maintain divisions

between ethics and business in business and academic work. He furthermore asserts that fiduciary duties owed to shareholders are irrelevant to normative work on stakeholder theory, since these duties themselves are not exempt from ethical scrutiny, must be morally justifiable, and do not allow managers to engage in unethical behavior with respect to non-shareholder stakeholders.

**2.1.5.12 A Feminist Interpretation.** Wicks, Gilbert, and Freeman (1994) state that the applicability of stakeholder theory has been restricted due to its reliance on “masculinist” assumptions derived from the business literature. Therefore, they reinterpreted stakeholder theory based on a more “feminist” viewpoint, relying to a substantial extent on the work of Gilligan (1982). They specifically challenge five masculinist assumptions: 1) that corporations are autonomous entities; 2) that corporations can and should enact or control their external environment; 3) that the management of firms is best described using the language of competition; 4) that we should be as objective as possible in determining strategy; and 5) that power and authority in corporations should adhere to strict hierarchies. In general, the feminist viewpoint focuses on collaboration and relationship development and maintenance between firms and their stakeholders.

Regarding the first assumption, that corporations are autonomous entities, Wicks et al. (1994: 483) present an alternative view of the corporation wherein it is seen as a “web of relations among stakeholders,” firms are inextricably embedded in their contexts, and the boundary between the corporation and its “external” environment is diminished in importance, replaced by “a sense of communal solidarity.”

Regarding the assumption that corporations can and should enact and/or control their environments, Wicks et al. (1994) assert that, instead, firms should attempt to embrace chaos and

environmental change: the goal is to create “harmonious relationships” with the environment rather than to impose the will of the firm upon it. This requires the firm and its stakeholders to acknowledge their interdependence and engage in collaboration to meet the dynamic needs and expectations of all parties.

Regarding the assumption that conflict and competition are the appropriate way to characterize the world of business, Wicks et al. (1994) state that this position may be inappropriate and is often detrimental to relationships with stakeholders. They argue that corporations should focus on communication, collective action, and participation in their relationships with stakeholders, and so avoid conflict, or, at worst, facilitate its resolution should it occur.

With respect to strategy, Wicks et al. (1994) present a feminist viewpoint which characterizes “strategy as solidarity” as an alternative to the masculinist point of view that strategic decisionmaking should be “as objective as possible.” The latter approach attempts to describe strategic decisions as “business decisions” or based on “the numbers;” however, Wicks et al. (1994) assert that it distances managers from the responsibilities associated with the consequences of their actions. The feminist point of view, in contrast, is based on the idea that managers’ strategic decisions should incorporate consideration of the relationships and responsibilities they have with respect to the firm’s stakeholders: stakeholders’ perceptions of the situations, what is at stake, and how it should be handled should be incorporated into strategic decisions.

The final masculinist assumption identified by Wicks et al. (1994) is that power and authority in firms should be structured in a strict hierarchy. Based on their reassessments of the first four assumptions, they assert that this assumption, too, must be dropped. In its stead, the

authors advocate the collapsing of much of the hierarchy, and a focus on decentralization and empowerment, wherein the viewpoints of all stakeholders in the organization are seen as legitimate.

Taken together, the assumptions of the feminist perspective on stakeholder theory presented by Wicks et al. (1994) advocate harnessing participation, collaboration, and communication to create value for all stakeholders rather than focusing on creating value for shareholders.

Lampe (2001) also applied feminist ethical theory to stakeholder theory, extrapolating from the work of Wicks et al. (1994) to assert that mediation (rather than adversarial behaviors) is a preferable approach to addressing disagreements between FOs and their stakeholders.

Lampe (2001) argues that mediation represents an approach to handling firm-stakeholder conflict that allows one to avoid time-consuming and costly approaches such as lawsuits, lobbying, strikes, and boycotts, which often are counter-productive, while considering simultaneously the interests of both the FO and the stakeholder and facilitating the preservation of the relationship between them. Lampe (2001) posits that mediation, which requires cooperation, inclusion, and compromise, allows the stakeholder and the FO to jointly create win-win resolutions to their disagreements, and also allows parties to be educated regarding how to communicate and resolve future disagreements effectively.

### **2.1.6 Instrumental Stakeholder Theory**

From its initiation, stakeholder theory has incorporated the instrumental view that stakeholders are critical constituents in the firm's environment, and a firm must deal with them in order to be successful. The fundamental idea concerning instrumental stakeholder theory is that firms that do not have good relationships with their stakeholders and do not look out for the latter's

interests in an appropriate manner will suffer in terms of performance. As Gibson (2000: 246) puts it, stakeholder theory is "... a more elaborate model of the appropriate considerations to determine what actions will be instrumental in making the firm more effective." In its extreme form, instrumental stakeholder theory takes the position that the management of most stakeholders is a means to an end, that end being the improvement of firm performance (Berman et al., 1999; Quinn & Jones, 1995): dealings with stakeholders are a necessary means that must be used in order for the firm to achieve ends such as profitability, since organizations exhibit resource dependence with respect to their stakeholders due to the fact that stakeholders can restrict the FO's access to critical nonsubstitutable resources (Berman et al., 1999; Welcomer, 2002).

From this view, addressing the interests of non-shareholder stakeholders is "contingent on the value of those relationships to corporate financial success" (Berman et al., 1999: 492): from a transaction cost economics perspective, firms that make efforts to address the interests of stakeholders or indicate their willingness to take an interactive approach to their relationships with stakeholders may be able to avoid formal contractual mechanisms, regulation, and other control devices that can increase costs (Ruf et al., 2001), while from a resource-based view (Barney, 1991), strategic investment in the maintenance of stakeholder interests can lead to competitive advantages that are not easily imitable (Ruf et al., 2001). Of course, even if it is a good idea for managers to heed the interests of stakeholders, they may not do so (Ogden & Watson, 1999).

Work on the instrumental aspects of stakeholder theory has for the most part focused on the relationship between the nature of the FO's relationships with its stakeholders and the organizational performance exhibited by the FO. Jones (1995) presented the first compelling

version of what he himself terms “instrumental stakeholder theory.” In this work, he outlines propositions concerning the effects of particular firm behaviors on firm performance. Jones’ focus is on the “contracts,” or relationships, that exist between the firm and its various stakeholders. He refers to agency theory (Jensen & Meckling, 1976; Mitnick, 1982), transaction cost economics (Williamson, 1975) and team production (Alchian & Demsetz, 1972) to develop propositions based on the idea of opportunism on the part of the managers, who are “contracting agents” for the firm, forging and managing the various relationships between the firm and its stakeholders. The essence of Jones’ (1995) argument is that opportunistic behaviors on the part of a firm’s managers leads to contracting inefficiencies (i.e., difficulties in forging or maintaining stable, cooperative, and, especially, trusting relationships with stakeholders), such that the firm’s performance will suffer relative to that of non-opportunistic firms (Jones, 1995). Jones’ propositions articulate how behaviors by firms such as the use of shark repellent, poison pills, or greenmail, the payment of disproportionately high levels of compensation to executives, the use of many suppliers, the contracting out of work, and the use of external rather than internal labor markets may be seen as opportunistic behaviors that generate negative effects on firm reputation and erode trust between stakeholders and the focal organization, and therefore can have a negative impact on firm performance.

Wicks et al. (1999) also suggest that the “amount” of trust in a FO’s relationships with its stakeholders has an influence on the performance of the FO; however, these authors assert that it is possible to “overinvest” in trust. For example, the FO could trust its stakeholders too much or invest in trusting relationships with stakeholders who have little impact on its well-being. Conversely, of course, the FO can “underinvest” in trust: trust too little or fail to invest in the creation of trusting relationships with its stakeholders. They present the concept of “optimal



trust,” which they define as existing when “one creates and maintains prudent economic relationships biased by a willingness to trust,” and present propositions that essentially advocate a “fit” between the degree of interdependence between the FO and the stakeholder and the degree of trust the FO should attempt to develop in its relationship with the stakeholder. Firms that are able to create fit between the degree of interdependence exhibited with respect to its stakeholders and the amount of trust it creates in its relationships with those stakeholders will outperform firms that are unable to do so.

Some empirical work supports the premise that stakeholder management is related to organizational performance. Berman et al. (1999) tested the appropriateness of two models of stakeholder management: the “strategic stakeholder management model” and the “intrinsic stakeholder commitment model.” In the strategic stakeholder management model, managerial concern for a stakeholder depends on managers’ perceptions concerning the ability of that stakeholder to contribute to the improvement of firm financial performance. In the intrinsic stakeholder commitment model, on the other hand, the firm has a moral commitment to further the interests of its stakeholders, which shapes firm strategy and, secondarily, has an impact on firm financial performance. Berman et al. (1999) investigated the effects of the adoption of each model on firm financial performance, focusing on firm activities in key stakeholder areas: employees, the natural environment, workplace diversity, customers, product safety, and community relations. Employing a sample of 100 firms from the Fortune 500, they found that characteristics of some stakeholder relationships were related to financial performance. Employees and product safety/quality were positively related to financial performance, and all five stakeholder relationship variables moderated the relationship between strategy and financial performance. Thus, regarding the strategic stakeholder management model, they argue that

stakeholder relationships have both direct (in the case of employee and customer relationships) and indirect effects on firm financial performance. However, they found no support for the intrinsic stakeholder commitment model.

Ulmer (2001) sought to identify the impacts of stakeholder relationships on crisis management. He argues that strong relationships with stakeholders can potentially help the FO avoid some crisis situations. Furthermore, stakeholder-FO relationships have important implications for the FO when a crisis does occur: stakeholders have an interest in the well-being of the FO, and so can be an important source of support in times of crisis. If stakeholder-FO relationships are strong, such support may be forthcoming, but support is less likely if relationships between stakeholders and the FO are contentious. Ulmer (2001) further suggests that crisis management activities by the FO should not be only concerned with the FO: its representatives must also eschew a stockholder focus and articulate their concerns for the well-being of all stakeholders.

Clarkson (1995) used his typology of responses to stakeholder interests – reactive, defensive, accommodating, or proactive – to test the effects of response strategy on financial performance. He found that firms that take a proactive or accommodative approach to stakeholder relations perform better financially than those that take a defensive or reactive stance with respect to their dealings with stakeholders.

Some results rebutting the position that stakeholder relations are positively related to performance come from Agle et al. (1999). Their results indicated that managers' perceptions of the salience of stakeholders (which would presumably translate into managerial attention being devoted to those stakeholders) were not related to organizational performance.

**2.1.6.1 Stakeholder Theory and Social Performance.** A number of researchers have attempted to employ stakeholder theory as a means of conceptualizing the concept of corporate social performance (CSP). These works often link “good” stakeholder relations (i.e., “good” CSP) with concepts other than firm performance.

Waddock and Graves (1997) assert that the quality of the relationships that a firm has with its key stakeholders is the defining characteristic of its CSP; that is, “good” CSP manifests itself through “good” relationships with, for example, employees, shareholders, customers, communities, and the environment. Thus, “from a stakeholder theory perspective, corporate social performance is assessed in terms of a company meeting the demands of multiple stakeholders” (Ruf et al., 2001: 43). Waddock and Graves (1997) focus for the most part on relationships with primary stakeholders, saying only that CSP is “possibly” associated with some secondary stakeholders as well. One interesting result of their reconceptualization of CSP is that financial performance is no longer seen as a variable determined in part by CSP (as is the common view in research relating CSP and financial performance); rather, financial performance is a measure of the treatment of a particular stakeholder (shareholders), and is itself a component of CSP. This echoes the position of Jones (1995b), who likewise states that, since stockholders are stakeholders, financial performance represents a component of social performance, and should not be treated as a separate variable. Waddock and Graves (1997) tested the hypothesis that quality of management can be explained by the quality of stakeholder relations (i.e., CSP). Their results suggest that perceived quality of management can indeed be explained by performance with respect to key stakeholders.

Gerde (2000) describes and tests a model of organizational design geared toward Rawlsian justice, asserting that such an organizing principle best captures organizations’ efforts

to address the interests of a wide variety of stakeholders. Her question was “Do organizations designed around the value of justice for their stakeholders have better CSP ratings than those that are not designed around justice?” Using structural configuration, human resource policies and incentives, control systems, strategic planning, and organizational ethos as independent variables, and data from Kinder, Lydenburg, and Domini as a proxy for CSP, she found that firms with more design features of a “just organization” did not exhibit higher CSP ratings.

Wood and Jones (1995) used a stakeholder approach to examine empirical research in CSP, particularly work that examines potential relationships between CSP and financial performance. They assert that the stakeholder approach is the best framework for assessing CSP, and submit that most studies correlating social and financial performance attempt to correlate variables that have no theoretical connection, which leads to ambiguous results. Wood and Jones (1995) state that various stakeholders 1) set expectations about firm behavior, 2) experience the effects of firm behavior, and 3) evaluate the outcomes of firm behavior; however, the empirical work in the CSP literature “mismatches variables” by failing to match variables to the relevant stakeholders. For example, they assert that correlating the existence of “employee-friendly” programs (which are relevant to outcomes experienced by employees) with financial measures (which are relevant to stockholders) is inappropriate, and furthermore presumes that only stockholders are able to evaluate how the company treats employees (and other stakeholders). Wood and Jones (1995) state that this presumption represents an implicit acceptance of shareholder primacy, and thus of the neoclassical view of the firm, which they regard as a violation of the underlying premises of the stakeholder model.

## 2.2 EQUITY THEORY

### 2.2.1 Background

“Fairness,” is a term that is often applied in the context of social interaction (Walster et al., 1978). Psychologists are widely concerned with perceptions of fairness and the ramifications of unfairness in social exchange (Darke & Dahl, 2003). Equity theory is a theory of social inequity (or “unfairness”) that specifically addresses these issues (Lawler, 1973). The goal of equity theory is to predict when people will perceive that they are being treated fairly or unfairly, and how they will react when faced with an unfair situation (Adams, 1965; Walster, Berscheid & Walster, 1973; Wilkens & Timm, 1978). It asserts, in short, that people are most satisfied when they perceive that they are being treated fairly in their relationships (Fossum & Moore, 1975). Equity theory is perhaps the most widely studied theory of fairness (Greenberg, 1990; Grau & Doll, 2003), and represents “a broad theoretical framework for understanding the manner in which social cues lead to perceptions of fairness” (Darke & Dahl, 2003: 330). It assumes norms of distributive justice (Homans, 1958) and reciprocity (Van Dierendonck, Schaufeli, & Buunk, 2001), and takes the position that any type of relationship can be perceived as fair or unfair (Weick, 1966).

Equity theory is a “process” theory of motivation. Process theories “attempt to provide a generalized explanation of the processes that lead to choices among alternative courses of action, varying degrees of effort expenditure, and persistence over time” (Campbell & Pritchard, 1976: 65). Equity theory is also a “cognitive theory,” one which focuses on people’s perceptions.

Equity theory posits that there are important consequences associated with fairness perceptions in relationships, and is regarded by many as the basic principle of justice in economic and social relationships (Wagstaff, 1998). In equity theory, motivation stems from

attempts to redress unfairness, or “inequity” in relationships (Wilkins & Timm, 1978). In short, a person assesses a given relationship in which he is a participant by evaluating his inputs to the relationship and outcomes he derives from it, and comparing those inputs and outcomes to those of a “comparison other” or “referent” (Scheer, Kumar, & Steenkamp, 2003). Wagstaff (1998) calls equity “a form of sophisticated reciprocity,” wherein a person should receive favors (punishments) in proportion to the favors (harms) he or she has bestowed upon others.

Though the results of some studies of allocation decisions have suggested that individuals sometimes eschew equity norms in favor of norms based on need and equality in the allocation of rewards (Wagstaff, 1998), equity theory remains critical to the analysis of perceptions of fairness in relationships. Indeed, more recent augmentations of equity theory such as “equity sensitivity” (Miles, Hatfield, & Huseman, 1989) actually take into account preferences for non-equity-based norms.

Adams (1963; 1965) is generally regarded as the person who developed equity theory, though the theory and its hypotheses are, to a large extent, derived from Festinger’s (1957) work on cognitive dissonance. Early equity formulations were also presented by Patchen (1961), Jaques (1961), and Homans (1958). All these early works assume that people perceive “fair” or “unfair” returns for their contributions to relationships, employ social comparison processes, and try to reduce the inequities cognitively or behaviorally when they are perceived (Carrell & Dittrich, 1978). Pritchard (1969: 176) notes that these various approaches “differ so little that testable differences cannot be deduced from them in areas where they would make predictions.” Cosier and Dalton (1983) attest that, while Adams’ equity theory is one of several exchange theories, it is the most explicit and rigorously developed model of fairness in assessments of relationships. Furthermore, equity theory as it is understood today in organizational studies was

formalized by Adams (1963, 1965), and his work has inspired the vast majority of research (Campbell & Pritchard, 1976; Hinton, 1972; Pritchard, 1969). Accordingly, Adams' formulation and its subsequent development will be the focus of this review. I first present Adams' theory and then discuss its critical components and development. The amount of empirical evidence concerning equity theory is vast: in only the first decade after Adams' initial work, Adams and Freedman (1976) noted more than one hundred studies of equity theory. Therefore, the work reported here does not constitute an exhaustive review; rather, I introduce empirical evidence as necessary in my discussions of the key components of equity theory. I have attempted to include evidence representative of both early and more recent work concerning the theory.

### **2.2.2 Adams' Equity Theory and Subsequent Developments**

As noted, Adams' (1963; 1965) equity theory hinges on the inputs that social actors make into an exchange relationship and the outcomes they derive from that relationship. Inputs represent "investments" in the exchange relationship for which the contributor expects some reciprocal return. Inputs are perceived to be such by the social actor who contributes them, but will not necessarily be perceived as such by the other actor in the exchange relationship. As long as the actor sees an input he or she contributes to the relationship as relevant to it, that input becomes an important factor in his or her perception of the equity or inequity of the relationship.

On the other side of the exchange relationship are resources, returns, rewards, or compensation that the actor derives from the relationship. Adams (1965) calls these receipts "outcomes." In the most general terms, outcomes can be conceived of as any consequences to the person of his or her participation in a relationship (Hunt, Kernan, & Mizerski, 1983). Outcomes, like inputs, are perceived, and their relevance to the exchange relationship stems merely from their recognition by the "receiver" as outcomes, whether or not they are perceived

as such by the “giver.” Thus, assessments of the degree of equity or inequity in relationships are completely subjective: they are based entirely on the perceptions of the participants in the relationship (Webster & Rice, 1996).

The key process in the development of perceptions of equity or inequity in exchange relationships is a social actor’s comparison of its inputs to and outcomes from the relationship with the inputs and outcomes of the other party in the relationship, others who are in similar exchange relationships (Adams, 1965; Oldham, Kulik, Stepina, & Ambrose, 1986; Ronen, 1986), or of the actor’s historical self (Bretz & Thomas, 1992). Equity theory is thus founded on processes of social comparison (Festinger, 1957) and asserts that perceptions of fairness in relationships are based on such comparisons, which may be made consciously or unconsciously (Campbell & Pritchard, 1976; Hinton, 1972). For example, an untenured faculty member at a university might develop his expectations concerning what constitutes an equitable distribution of inputs to and outcomes from the university by referring to the inputs and outcomes of another untenured faculty member in the same department, though the comparison-other need not be so similar to the person. The comparison other may even be an abstraction based on a class or category of others (e.g., “untenured faculty members”) rather than a specific individual (Campbell & Pritchard, 1976; Cosier & Dalton, 1983).

**2.2.2.1 Equity in Relationships.** Using Adams’ notation, an individual or other social actor will perceive a situation to be equitable if and only if  $O_p/I_p = O_o/I_o$ , where O represents a weighted summation of outcomes from the relationship, I represents a weighted summation of inputs to the relationship, and the subscripts p and o represent the “person” and the “(comparison) other.” In this condition the individual perceives his ratio of outcomes from the relationship to inputs to the relationship as equal to the corresponding ratio of the comparison-



other, though equity effects are typically not seen as requiring *exact* balance (Cosier & Dalton, 1983; Vogl-Bauer, Kalbfleish, & Beatty, 1999). This state should lead to satisfaction for the participants in the relationship (Greenberg, 1990) regardless of the absolute levels of inputs and outcomes of either party (Campbell & Pritchard, 1976). In Adams' (1963; 1965) view, then, equitable relationships are thus usually regarded as the most satisfying type for both parties in an exchange relationship.

**2.2.2.2 Inequity in Relationships.** Inequity for an individual or other social actor exists when he or she perceives that the ratio of his outcomes from an exchange relationship to his inputs to the relationship is different from the corresponding ratio of the comparison-other. As noted above, this can occur when the individual and the comparison-other are the two parties in the exchange relationship, or when both the individual and the comparison-other are in similar exchange relationships with a specific other party.

Using Adams' (1965) notation, inequity exists when either 1)  $O_p/I_p < O_o/I_o$ , or 2)  $O_p/I_p > O_o/I_o$ . The condition depicted in Relation 1, where the individual perceives herself as relatively undercompensated compared to the comparison-other, is usually termed "underreward inequity." The condition depicted in Relation 2, where the individual perceives herself as relatively overcompensated compared to the comparison-other, is usually termed "overreward inequity." Inequities of either type are expected to produce "tension," or "dissonance" (Adams, 1963, 1965; Festinger, 1957; Griffeth, Vecchio, & Logan, 1989), negative affect (e.g., anger, resentment) (Akerlof & Yellen, 1990; Ingersoll-Dayton et al., 2003; O'Malley & Davies, 1984; Sprecher, 1986), guilt (Brockner et al., 1988; Ingersoll-Dayton et al., 2003), and even depression (Longmore & Demaris, 1997) on the part of the party who perceives the inequity, such that a need or drive for equity will be activated (Campbell & Pritchard, 1976; Laufer, 2002).

It is thus the dissonance, tension, or distress that accompanies inequity that is said to motivate individuals (Adams, 1963; Hunt et al., 1983; Walster et al., 1973). Specifically, participants in a relationship that they perceive to be inequitable will be motivated to reduce the associated tension by attempting to reduce or eliminate the inequity. To Adams (1963; 1965), overrewarded individuals will exhibit “empathic distress” that evokes a desire to relinquish outcomes or contribute more to the relationship, whereas in underrewarded people, a self-interest motive will result (O’Malley & Davies, 1984). In both cases, the person will strive to reduce the inequity (Adams, 1963, 1965; Griffeth et al., 1989). Both overreward and underreward relate to relative deprivation, and need not be related to absolute levels of outcomes (Watson, Storey, Wyncarczyk, Keasy, & Short, 1996): it is the comparison, rather than the absolute level of outcomes, that is important. The consequences of either type of inequity are expected to be proportional to its size (Pritchard, 1969; Vogl-Bauer et al., 1999; Webster & Rice, 1996); thus, the relationship between inequity and distress is usually characterized as “monotonically increasing” (Hunt et al., 1983).

In brief, then, equity theory according to Adams (1965) can be summarized in four principles (Cosier & Dalton, 1983; Webster & Rice, 1996): 1) perceived inequity creates tension within a person; 2) the amount of resultant tension is proportional to the size of the perceived inequity; 3) the tension stemming from perceptions of inequity motivates the person to reduce it; and 4) the degree of motivation to reduce the perceived inequity is proportional to its size.

Walster et al. (1976) noted that Adams’ equity ratio is impractical in situations where inputs can be negative. For example, in a situation where  $O_p = -4$  and  $I_p = 2$  and  $O_o = 4$  and  $I_o = -2$ , both the person’s and the comparison other’s O/I ratios equal -2. Adams’ predicts equity in this situation; therefore, no party should take action to alter his or her inputs or outcomes.

However, it is clear that, in this case, the comparison other is “getting a better deal,” contributing less than nothing and receiving substantially more outcomes than ‘person’: in reality, ‘person’ should perceive underreward inequity, experience substantial dissonance, and act to alleviate the inequity, while (according to Adams), ‘other’ should perceive overreward and likewise strive to reduce the inequity. As a result of this shortcoming in Adams’ ratio, other equity ratios have been presented by Walster et al. (1976), Anderson and Farkas (1975), and Wagstaff and Perfect (1992) to accommodate negative input values. For the sake of simplicity, however, and because the vast majority of equity researchers have adopted Adams’ formula, I employ it throughout this dissertation.

### **2.2.3 Applications of Equity Theory**

Equity theory has been tested in hundreds of studies in laboratory and field settings. Though it was originally developed to explain motivation in employee-employer relationships (most equity research still studies this relationship) and how motivation-related constructs such as effort (Adams, 1965; Akerlof & Yellen, 1990) and absenteeism (Dittrich & Carrell, 1979) relate to perceptions of pay equity or inequity, it has been successfully applied to explain diverse phenomena in other type of relationships. Equity theory has been applied to investigate, among other things, the power structure in marital relationships (Webster & Rice, 1996), distribution among siblings in parent care (Ingersoll-Dayton et al., 2003), satisfaction with bargains (Darke & Dahl, 2003), satisfaction with service recovery (Hoffman & Kelley, 2000), relationships among older spouses (Ingersoll-Dayton & Antonucci, 1988) and other intimate relationships (Kuijer, Buunk, & Ybema, 2001), provision of public goods (Chan, Godby, Mestelman, & Muller, 1997), division of housework among spouses (Zuo & Bian, 2001), relationships between friends (Roberto & Scott, 1986), parent-adolescent relationships (Vogl-Bauer, et al., 1999), perceptions

of fairness of reward allocation in teams (Wilke, Rutter, & Van Knippenberg, 2000), results of baseball arbitration (Fizel, Krautmann, & Hadley, 2002), customer satisfaction with a seller (Alexander, 2002; Homburg, Krohmer, Cannon, & Kiedaisch, 2002), taxpayer perceptions of their relationships with the government (Kim, 2002), depression in relationships with relatives (Ramos & Wilmoth, 2003), the effects of inequity on worker health (Taris, Kalimo, & Schaufeli, 2002), perceptions of the adequacy of sentences for convicted criminals (Izzett, 1981), and burnout among care providers in provider-patient relationships (Van Dierendonck et al., 2001). The following sections elaborate on key components of equity theory – inputs, outcomes, comparison others, and responses to inequity. I include empirical evidence where relevant.

## **2.2.4 Inputs and Outcomes**

**2.2.4.1 Inputs.** In the terminology of equity theory, “inputs” include all those factors that the perceiver sees as relevant reward-worthy contributions to the relationship in which he or she is involved (Adams, 1965; Campbell & Pritchard, 1976; Cosier & Dalton, 1983). Alexander (2002) refers to inputs as expenditures of “money, time, or anything else.” Weick (1966: 417) simply defines an input as, “anything that a person regards as relevant in the exchange and for which he expects a just return.” In workplace relationships, which have dominated equity theory research, inputs have been said to include psychological or physical effort (Campbell & Pritchard, 1976; Pritchard, 1969; Taris et al., 2002), education (Campbell & Pritchard, 1976; Kilduff & Baker, 1986; Lawler, 1973), experience (Cosier & Dalton, 1983; Kilduff & Baker, 1986; Lawler, 1973), training (Janssen, 2001), professional reputation (Finn & Lee, 1972), productivity or performance (Brounstein, Norman, & Ostrove, 1980; Lawler, 1973), seniority, time, loyalty, compliance (Huseman & Hatfield, 1990), age (Campbell & Pritchard, 1976; Lawler, 1973), sex (Lawler, 1973), amount of responsibility, knowledge, skills, abilities, and

organizational citizenship behaviors (Dyer, Schwab, & Theriault, 1976; Lawler, 1966; Konopaske & Werner, 2002; Moorman, 1991).

The criteria that are perceived as inputs may vary widely across individuals, and will also vary with the nature of the relationship (e.g. employee-employer versus buyer-seller). Thus, such disparate variables as ethnicity (Christian & Greene, 1976), word-of-mouth, loyalty, (Alexander, 2002), age, and beauty (Critelli & Waid, 1980; Weick, 1966), patronage frequency (Laufer, 2002), financial control, gender (Konopaske & Werner, 2002) and emotional contributions (Critelli & Waid, 1980; Grau & Doll, 2003; Hatfield, Utne, & Traupmann, 1979), may also be regarded as inputs. The determination of relevant inputs may vary across culture (Laufer, 2002). For example, consumers searching a mall for a product might be viewed as a valued outcome for consumers in one culture, but an annoyance (and so an input into the producer-consumer relationship) in another (Laufer, 2002).

Lamm, Kayser, and Schanz (1983) noted that equity theory does not account for when a given type of input is perceived as relevant and which inputs are particularly weighty in determining perceptions of allocation fairness. The results of their study indicated that effort tends to be given more weight than ability in assessments of the fairness of allocation decisions, leading them to suggest that a contribution will be seen as more relevant when it is under the control of the actor than when it is not. In experiments by Boldero and Rosenthal (1984), it was determined that effort was also favored over experience in determining the fairness of reward allocation. Tombari (1979) suggested that salience of inputs is determined in part by occupational group, and found that job-related inputs (e.g., planning, structuring, and labor management relations) were more salient than personal-related inputs (e.g., tenure) in equity assessments.

**2.2.4.2 Outcomes.** As noted earlier, outcomes are all those factors seen by the perceiver to be valuable rewards for his contributions to the relationship in which he is participating (Cosier & Dalton, 1983). Adams (1965) presented a variety of factors that can be perceived as work outcomes, and many other work related and non-work-related outcomes have been identified by later researchers. However, the determination of what constitutes a relevant outcome also varies across individuals and the context of the relationship: for example, Tombari (1979) found that the salience of outcomes was related to occupational group: supervisors perceived outcomes differently from management and their subordinates. Relevant outcomes can also vary across culture, and the perceptions of exchange partners as to what is a valuable outcome may also differ (Scheer et al., 2003). Thus, the concept of an outcome is extremely broad.

Kabanoff (1991: 417) takes the position that outcomes are “conditions and goods that affect well-being, which includes psychological, physiological, economic, and social aspects.” This definition allows for an infinite number of potential outcomes in exchange relationships. Such factors can include (but are by no means limited to) factors such as pay, supervisory treatment and recognition, benefits, promotions, status, prestige, authority, organizational communication, inclusion in decisionmaking, fringe benefits, the interest of a job, rule administration, work pace, task distribution, raises, incentives, working conditions, intrinsically rewarding tasks, a sense of accomplishment, social identity and other social rewards, ethical behavior, product quality, and service received (Adams, 1965; Alexander, 2002; Huseman & Hatfield, 1990; Ingersoll-Dayton et al., 2000; Janssen, 2001; Kilduff & Baker, 1986; Lawler, 1973; Tombari, 1979; Weick, 1966; Wilke, Rutte, & Van Knippenberg, 2000; Wilkens & Timm, 1978; Zuo & Bian, 2001).

In the workplace, Huseman & Hatfield (1990) differentiate between four different types of outcomes: system, job, performance, and interpersonal. System outcomes stem from a person's membership in an organization, and include factors such as pay, fringe benefits, promotion and advancement, job security, and working conditions. Job outcomes stem from doing one's job, and include doing challenging work, using one's abilities, making decisions, having responsibility, and doing meaningful work. Performance outcomes are those that come from job successes, such as feelings of accomplishment, competence, personal worth, achievement, and confidence. Interpersonal outcomes stem from relationships with others, and include factors such as recognition, status, a sense of belonging, appreciation from others, and friendships.

In most early equity research the manipulated outcome was pay (Greenberg, 1990a; Wilkens & Timm, 1978), which some researchers have categorized into pay rules (i.e., how one is paid compared to others in the organization) and pay level (i.e., how one is paid compared to others outside the organization). More recently, though, researchers of equity theory have investigated various non-pay work-related outcomes (Greenberg, 1990a). For example, Greenberg and Orenstein (1983) investigated the effects of job title on perceptions of equity. They found that a high status title did act, at least temporarily, as a valuable outcome: a high status title could be used to maintain equity when the employee's work load (i.e., inputs) was increased. However, when a high status title was not "earned" through good performance, it was not perceived as a reward in compensation for greater responsibility, and perceptions of underreward resulted.

Greenberg (1988) also investigated workspace as a work-related outcome, using a sample of insurance underwriters who were temporarily relocated to better, equal, or worse offices.

Results indicated that being relocated to a higher-status office resulted in feelings of overreward and a corresponding (though temporary) increase in performance, while being relocated to a lower-status office was a source of perceptions of underreward and led to decreased performance. Thus, office space seems to be seen as a relevant reward in equity considerations, most likely due to the status it confers. This represents corroborating evidence for Adams' (1965) stipulation that job status and status symbols are relevant outcomes in the equity equation.

Contemporary equity theorists usually distinguish between “extrinsic” and “intrinsic” rewards or outcomes. In general, extrinsic rewards are provided by others, while intrinsic rewards are provided by oneself. For example, Darke and Dahl (2003) suggested that getting a discount may represent an ego-satisfying intrinsic outcome for consumers: shoppers will attribute a bargain to their own shopping skill and will thereby derive satisfaction. In their study, bargains increased satisfaction even when no monetary rewards were available. Thus, a discount appears to generate psychological intrinsic value (though it may also provide extrinsic (e.g., financial) rewards). Other intrinsic rewards include factors like satisfaction with goal achievement (Kilduff & Baker, 1984). Intrinsic and extrinsic outcomes will be discussed at length in the section concerning expectancy theory.

**2.2.4.3 Ambiguity Concerning Inputs and Outcomes.** Weick (1966), Pritchard (1969), and Tornow (1971) note some ambiguity concerning the nature of inputs and outcomes. The variety of potentially perceived inputs and outcomes makes it difficult in some circumstances to ascertain which of the two a variable represents, which makes it unclear where it fits into the equity ratio. Weick (1966), by way of example, presents a case where the comparison other sweats profusely. It is unclear whether this should be regarded as a sign that this referent works very hard (which would raise perceptions of his inputs) or as an indication that the referent's job



causes him great physical discomfort (which would lower perceptions of his outcomes).

Similarly, if one is given greater responsibility, does this represent an input (due to the greater cognitive and other efforts required) or an outcome (due to the higher status) (Pritchard, 1969)?

Weick (1966) suggests that individuals may make ascriptions of outcome/input status in such a way as to promote equity. Thus, an underrewarded employee will regard greater responsibility as an outcome, whereas an overrewarded one will regard it as an input. He further suggests that if a great number of ambiguous elements (i.e., those which could be considered either an input or an outcome) are present, it may be difficult for perceptions of large degrees of inequity to ever occur, as sources of inequity will be met with frequent interpretations of ambiguous elements in order to maintain equity. Finally, Weick (1966) suggests that, in the presence of ambiguous elements, it will be unlikely that a person will resort to the cognitive strategy of switching referents described by Adams (1965) as a way to preserve perceptions of equity: once the choice of referent has been made, ambiguous elements make it relatively simple to maintain equity.

It may be, though, that Weick's (1966) criticisms stem from an assumption that people will fail to "decompose" observations to the appropriate degree: for example, in the example above sweating may simultaneously be a result of hard work (high inputs) and a source of discomfort (an influence on outcomes). Weick (1966) assumes that the person cannot successfully perceive this. Similarly, a person should readily be able to understand that greater responsibility may simultaneously confer status (an outcome) and require more effort (an input). If accurate decomposition of observations of referents and personal experiences is possible, the equity ratio itself will be less ambiguous, large perceived inequities will be possible, and Adams' (1965) strategy of switching comparison others is still relevant.

**2.2.4.4 Interdependence of Inputs and Outcomes.** Adams (1963), Pritchard (1969), and Weick (1966) also note that inputs and outcomes can be interdependent. Weick (1966) states that the result of such correlations would be that inequity reduction becomes substantially more difficult: any attempt to reduce inequity by, for example, altering inputs, could simultaneously alter outcomes, resulting in another inequity. He further posits that this situation will lead to people favoring cognitive responses to inequity over behavioral responses. However, a substantial amount of empirical evidence suggests that behavioral reactions to inequity are common.

### **2.2.5 Comparison Others**

As noted, a critical determinant of perceptions of equity or inequity in exchange relationships is the social actor's comparison of its inputs to and outcomes from the relationship to the inputs and outcomes of a comparison other. A person's choice of referent should have an impact on the perception of the equity/inequity status of the relationship (Chen, Choi, & Chi, 2002). As the referent changes, the comparison of O/I ratios will be seen as more or less favorable by the person, which, in turn, influences perceptions of the equity of the relationship. For example, in a rare study of the importance of referents on satisfaction, Chen et al. (2002) looked at equity perceptions of local employees of an international joint venture (IJV) and found that these local employees perceived underreward with respect to expatriate employees of the IJV, but the dissatisfaction associated with this perception was counteracted by a perceived overreward relative to other locals.

Though the choice of referent has substantial implications for perceptions of equity or inequity, and thus for the behavior of participants in a relationship, Adams (1963, 1965) did not delineate specifically who will be used as a referent other nor how the comparison would be

made. Lawler (1973), however, notes Patchen's (1961) assertion that, in the workplace, the choice of comparison other is influenced by relative wage position and mobility chances, and Andrews and Henry (1963) found that as education level rises, managers tend to look more outside of their organization for comparison others.

Since the work of Adams, limited work has been done concerning the bases of these choices of referents (Watson et al., 1996). Thus, it remains largely unclear as to who is likely to be a salient referent for a given individual (Akerlof & Yellen, 1990, Pritchard, 1969). Martin and Peterson (1987), following Oldham et al., (1986) suggest that the choice of comparison others is dependent on the availability of information about potential referents and their attractiveness and relevance as an object of comparison. Goodman (1977) asserted that the attractiveness of a referent, in turn, depends on its instrumentality in satisfying needs. Akerlof and Yellen (1990) assert that there are three natural choices for a referent in a work setting: people in similar occupations in the same organization, people with dissimilar occupations in the same organization, and individuals in other organizations: Konopaske and Werner (2002) refer to the types of equity associated with these comparisons as "employee equity," "internal equity," and "external equity," respectively. Regarding these types of equity Roberts, Coulson, and Chonko (1999), in a study of salespeople, found that internal equity was more important than external equity, at least in its effects on organizational commitment and turnover.

Akerlof and Yellen (1990) acknowledge that one may compare her O/I ratio to that of a very dissimilar entity: for example, an employee might look at her wage and compare it to the rewards earned by those who share in firm profits. Martin and Peterson (1987), while concurring that important comparison others include "internal comparisons" and "external comparisons"

(with people in similar positions in other organizations), also contend that employees might use family members as referents.

**2.2.5.1 The Possibility of Internal Comparisons.** Weick (1966), Weick and Nessel (1968), Pritchard (1969), and Wagstaff (1998) assert that in some circumstances an individual will perceive his or her outcomes as equitable or inequitable based on an internal standard that is unrelated to comparisons with others. For example, Martin and Peterson (1987) postulate that employees might compare their pay to a historical level. Hinton (1972) similarly asserts that one may use himself as a comparison other.

Taris et al. (2002) distinguish between interpersonal comparison (which employs an external referent) and intrapersonal comparison (which does not). Intrapersonal comparison uses an internal standard which influences perceptions of equity/inequity. This is a standard – based upon what the person feels she deserves – by which one makes assessments of the rewards and costs of a relationship.

Carrell and Dittrich (1978) also state that one might compare her outcomes to a standard other than that established by treatment of a referent. Their position is based on the assertion that people will attempt to “align discrepancies” even when there is no comparison other in the context, and that perceptions of imbalance in inputs and outcomes made internally should result in dissonance as much as an O/I imbalance relative to a referent. When this internal comparison occurs, the person will make a simple comparison of outcomes to inputs (i.e., the O/I ratio will not be used); rather, equity will be perceived when outcomes are approximately equal to inputs irrespective of their absolute level. When inputs are not equal to outcomes, inequity will be perceived, even if a comparison person is in a similar situation. Wagstaff (1998) refers to this as the “basic form” of the equity principle.

Equity or inequity perceptions stemming from internal comparisons have not received much attention in the equity theory literature, perhaps due to the popularity of Adams' (1963, 1965) formulation, which mandates interpersonal comparisons. However, Van Dierendonck, Schaufeli, & Buunk (1996) found that intrapersonal inequity due to an imbalance between an individual's inputs and outcomes does indeed result in stress, and Taris et al. (2002) built on the foundation of Van Dierendonck et al. (1996) using a sample of 1297 Finnish workers to find "remarkably similar" results when comparing intrapersonal and interpersonal comparisons' effects on dissonance-related variables. Taris et al. (2002) also undertook to measure the relative contributions of intrapersonal and interpersonal comparisons. Stepwise hierarchical regressions indicated that inclusion of referents' O/I ratios in the equations added little explanatory value, and the change in  $R^2$  produced by the inclusion of these ratios was not significant in any of five analyses, leading the researchers to express preference for the use of intrapersonal comparisons due to their conceptual simplicity. However, the results of Weick and Nasset (1968) generally showed that inequity is more uncomfortable when one makes a comparison with another (and O/I ratios are unequal) than when one merely compares his or her own outcomes to inputs (and finds them to be unequal), thus indicating that external comparisons may be more critical than internal ones in eliciting responses to inequity.

### **2.2.6 Responses to Equity or Inequity**

Because equity – or the lack thereof – is in the eyes of the perceiver (Adams, 1963, 1965; Wilkens & Timm, 1978), perceptions of equity in a relationship are subjective, and objective observers may not make the same assessments of the degree of equity in a relationship that the participants in that relationship make (Critelli & Waid, 1980; Walster et al., 1978). Similarly, the parties in the relationship may disagree completely on its degree of equity. However, according

to Adams (1965), a relationship participant who perceives inequity, whether or not it exists objectively, should be motivated to ameliorate it.

There are two broad categories of equity restoration activities (Greenberg, 1990; Walster et al., 1978). In “actual” restoration activities, the perceiver of the inequity will attempt to change his or her inputs to or outcomes from the relationship (Walster et al., 1978; Ingersoll-Dayton et al., 2003; Hunt et al., 1983) or to change the inputs or outcomes of the comparison other. Alternatively, the perceiver might employ “cognitive” or “psychological” equity restoration, wherein he cognitively adjusts his perceptions of inputs and outcomes (Brockner et al., 1988; Greenberg, 1990; Hunt et al., 1983, Walster et al., 1978; Wilke et al., 2000) or switches referents (Campbell & Pritchard, 1976). For example, an underrewarded person might reduce inequity-induced dissonance by invoking a perception of additional rewards by acknowledging the social rewards associated with work in addition to the financial rewards, or might perceive his work environment more favorably than previously (Greenberg, 1990). Wilkens and Timm (1978) identify five potential cognitive or behavioral responses to inequity: distress, demands for compensation or restitution, retaliation, justification of the inequity (wherein one cognitively distorts his perceptions of inputs and outcomes), and withdrawal (wherein one become less active in the relationship or leaves it altogether). Weick (1966) suggested that responses such as “denial” and “task enhancement” should be included as well.

In general, when undertaking equity restoration activities people will seek to: 1) maximize positive outcomes; 2) minimize effortful or costly inputs; and 3) resist behavioral and cognitive changes that are important to their self-esteem or central to their self-concept (Adams, 1965). Furthermore, people will prefer to change their cognitions concerning the inputs and/or outcomes of the comparison other rather than change cognitions about their own (Adams, 1963,

1965; Leventhal & Michaels, 1969; Pritchard, 1969). Due to the associated stress and other costs (such as switching costs) (Sheehan, 1991), “leaving the field,” or “severance” of the relationship is seen as a last resort when faced with inequity, and it will tend to occur when the perceived inequity is substantial and other means of alleviating it are seen to be ineffective or unavailable (Adams, 1965; Campbell & Pritchard, 1976; Pritchard, 1969). Though changing of the comparison other may occur as a result of perceived inequity (Kilduff & Baker, 1984), if comparisons with the referent have been consistent over time, an individual will be highly resistant to changing referents (Adams, 1963, 1965; Pritchard, 1969).

Opsahl and Dunnette (1966) suggested that the vagueness of arguments concerning which mode of equity restoration activity will be taken in a given circumstance make equity theory difficult to test. They assert, for example, that if an overcompensated person did not exhibit a subsequent increase in inputs, one could not tell if this represents disconfirmation of the theory or if the person merely undertook a cognitive form of equity restoration. Weick (1966) noted that the difficulty associated with prediction of the type of equity restoration activity is compounded by the vast number of potential inputs and outcomes that could be manipulated in an attempt to restore equity.

**2.2.6.1 Affective and Behavioral Responses.** Research concerning equity theory has looked at the effects of equity and inequity in relationships on several affective variables. Concerning affective responses, perceptions of equity or inequity are often posited to relate to satisfaction with the relationship or the outcomes derived from it (Berkowitz, Fraser, Treasure, & Cochran, 1987; Greenberg, 1990; Perry, 1993; Sheehan, 1991; Summers & DeNisi, 1990; Sweeny, 1990) as well as attitudes toward the relationship and its outcomes (Ambrose & Kulik, 1999; Hauenstein & Lord, 1989; Moorman, 1991; VanYperen, Buunk, & Schaufeli, 1992). There is

also some evidence that inequity is related to depression (Ybema, Kuijer, Buunk, DeJong, & Sangerman (2001), and liking (Brounstein et al., 1980).

There is substantial evidence that behavioral responses to inequity are commonplace (Campbell & Pritchard, 1976; Hunt et al., 1983; Sheehan, 1991). Underrewarded employees, for example, might exhibit decreased effort (Adams, 1965; Akerlof & Yellen, 1990), increased absenteeism (Dittrich & Carrell, 1979; Geurts, Schaufeli, & Buunk, 1993), decreased enthusiasm or involvement in organizational processes (Monge, Cozzens, & Contractor, 1992), a decline in organizational citizenship behaviors (Moorman, 1991), sabotage (Akerlof & Yellen, 1990), disruptive behavior (Kilduff & Baker, 1984), a propensity for theft (Greenberg, 1990b), or might leave the organization altogether (Griffeth & Gaertner, 2001). Equity perceptions may also have an effect on individuals' performance in work settings (Adams, 1965; Hauenstein & Lord, 1989; Janssen, 2001). Janssen (2001), for example, asserts that managers who perceive equity in their relationship with their organization are likely to perform better than those who perceive that they are underrewarded. Overrewarded employees, on the other hand, might increase the quality of their output (Adams, 1965) or engage in organizational citizenship behaviors (Moorman, 1991), among other possible responses. In general, underreward inequity in relationships is seen as a force which undermines relationship cohesion, trust, commitment, and continuity (Chenet, Tynan, & Money, 2000; Hogg & Abrams, 1988), while equity or overreward is often proposed to increase commitment (Martin & Peterson, 1987; Rhodes & Steers, 1981) and organizational citizenship behaviors (Moorman, 1991).

**2.2.6.2 Underreward.** As noted earlier, it is expected that the perception of underreward in a relationship leads to feelings such as frustration, resentment, and anger, because the person feels he is not getting what he deserves (Grau & Doll, 2003; Huseman & Hatfield, 1990; Martin &



Peterson, 1987; Scheer et al., 2003), and is expected to lead to equity restoration attempts such as reduction of inputs (e.g., through reduction of effort, performance, etc.), changing of referent, severance of the relationship, or cognitive distortion of the situation (Adams, 1965; Bretz & Thomas, 1992; Griffeth et al., 1989; Scheer et al., 2003). From early work concerned with workplace inequity by Adams (1963, 1965), Lawler & O’Gara (1967) and the like to very recent work applying equity theory to a wide variety of contexts, empirical work has consistently indicated the robustness of the theory’s predictive utility in cases where a participant in a relationship perceives underreward (Ambrose & Kulik, 1999; Campbell & Pritchard, 1976). It is safe to conclude that when underrewarded, people will often respond with attempts to alleviate the inequity. The vast number of studies reporting on underreward effects precludes a comprehensive examination of them all; however, those discussed below should indicate the breadth of studies concerning underreward and the wide variety of relationships in which underreward is seen to elicit affective and behavioral responses.

Many work-related studies support equity theory’s postulates concerning underreward. Most of the early work in equity theory used quality of work, quantity of work, or both as dependent variables, and varied pay in order to manipulate perceptions of equity/inequity. Homans (1954) conducted interviews with two types of clerical workers in a large company. ‘Cash posters’ and ‘ledger clerks’ were paid about the same, despite the fact that one had to have several years’ experience as a cash poster in order to attain the position of ledger clerk. Thus, there existed what could be seen as an underreward situation for the ledger clerks. Open-ended interviews indicated that about 75% of ledger clerks found the situation to be unfair and desired extra pay based on their higher inputs (seniority and skill).

Andrews (1967) varied pay levels in a piece-rate payment system in order to manipulate perceptions of equity/inequity, and assessed work quality and quantity. Tasks involved either checking pages of data or interviewing students. In accordance with equity theory, underpaid subjects increased their quantity of work at the expense of quality, thus increasing their outputs and reducing their inputs simultaneously.

Lawler and O’Gara (1967) also recruited subjects to conduct interviews. They were paid a certain sum for each interview conducted (the pay rate represented the equity/inequity manipulation). Results indicated that, relative to equitably rewarded subjects, underrewarded subjects conducted more interviews, and their interviews were of lower quality. Thus, in accordance with equity theory, underrewarded subjects acted to increase their outcomes without increasing their inputs (by conducting more interviews while spending less time on each).

In another pay study, Pritchard, Dunnette, and Jorgenson (1972) hired men to work for a fictitious business they established. After three days of work, some subjects’ pay was cut in order to induce a perception of underreward. The researchers found that underreward perceptions resulted in dissatisfaction and a decline in performance.

In support of the proposition that inequity can lead to severance of the relationship, Valenzi and Andrews (1971) found that, among employees, underreward was positively related to quitting or thoughts of quitting. They hired workers at a specified wage, but then altered that wage based on a fictitious budgetary issue to induce inequity. Twenty-seven percent of subjects in the underreward condition quit immediately. Similarly, Carrell and Dittrich (1978) found that perceived equity among employees of a service organization was a significant predictor of turnover and absenteeism.

Other early work supporting the equity propositions concerning underreward come from Andrews (1967) and Lawler & O’Gara (1967), who found that in a low piece rate reward system subjects will produce a large number of low quality-products (which raises their outcomes without substantially raising their inputs).

A rare instance of an empirical study failing to support the effects of underreward comes from Hinton (1972). In an experiment employing students hired to undertake a card-sorting task, Hinton (1972) found that equity/inequity condition was only related to performance in one of four conditions. However, it is important to note that some work in motivation shows that motivation and performance are tenuously related, since a number of other variables (e.g., ability) moderate the relationship. Furthermore, in the same study, two conditions had to be eliminated due to subject behavior that appeared to support equity theory’s predictions concerning underreward: when some subjects (all underrewarded) learned about the inequity, they simply refused to participate in the experiment and left. In one condition, one subject talked another subject into joining him in the experimenter’s office to protest the underreward. The experimenter agreed to raise their pay; however, one of the protesters succeeded in having an exposé concerning the experiment printed in a university paper. The exposé contained substantial pejorative information, some of which was misleading, and advised others to “help sabotage the project.” The next day, the subject group’s productivity was over two and a half times the previous high because two staff members from the paper had infiltrated the experiment. This, in fact, seems to be a manifestation of relatively extreme behavioral responses to underreward. Indeed, the author reported he was “in the somewhat unusual situation of being required to report greater success in his experimental manipulation than had, in fact, ever been dreamed of” (Hinton, 1972: 445).

More recent work continues to generally support Adams' version of equity theory as it applies to underreward. Evidence from work-related studies has been augmented by the findings from studies of other relational contexts. In a study of major league baseball players, Hauenstein and Lord (1989) found marginally significant support for the proposition that players who lost in the salary arbitration process (and who the authors asserted would feel underreward) would exhibit greater performance decrements in the season following arbitration than would players who won in arbitration (and should therefore feel overrewarded); that is, underrewarded players should reduce their inputs (and so play worse). Results generally supported this hypothesis. Furthermore, in accordance with predictions from equity theory, in the case of "inexperienced" pitchers the performance decrement was related to the magnitude of the inequity; however, for experienced pitchers the degree of performance change was not related to the degree of inequity. For hitters there was also substantial support for the hypothesis concerning the relationship between performance decrements and degree of underreward. In total, four of eight sub-groups manifested a significant relationship between magnitude of inequity and degree of performance decline.

In another study of arbitration cases in baseball, Bretz and Thomas (1992) likewise found that arbitration loss (representing underreward) had a negative effect on subsequent player performance. The average arbitration loser exhibited a significantly larger decline in performance than arbitration winners (both groups were expected to regress to their historical mean performance levels after arbitration). This seems to indicate that, for losers, a reduction of inputs was used to respond to the inequity. Bretz and Thomas (1992), unlike Hauenstein and Lord (1989), did not find that the degree of performance decline was related to the magnitude of the underreward, which controverts the prediction of equity theory that the magnitude of

response to inequity depends on the degree of the inequity. Bretz and Thomas (1992) also found significant differences between the proportions of arbitration winners and losers who left baseball, and a marginally significant difference between the two groups in terms of the proportion that changed teams: this result supports the position that underreward should be positively related to severance of relationships. Fizek et al. (2002), in yet another baseball study, came to the conclusion that equity was a significant determinant of a player's initial decision to file for arbitration.

Greenberg (1990b) found that when employees had their pay temporarily reduced, they perceived underreward. The perception of underreward led to increased theft among employees who did not receive a sufficient justification for the pay cut. Other theft-related evidence of the impact of underreward comes from the work of Glass and Wood (1996), who, in a study of students, found that subjects' intentions to pirate software for someone else was related to the price of the software.

The effects of underreward inequity (relative to their three most important comparison others) on managers' turnover intentions was investigated by Summers & Hendrix (1991). They found that, though underreward inequity was not related to performance, it had an indirect effect on turnover intentions. The relationship between inequity and turnover intentions was mediated by attitudinal variables such as pay and job satisfaction.

Jannsen (2001) hypothesized that managers who perceived equity in their relationships with their organizations would exhibit higher levels of satisfaction and performance than those who perceived underreward. Using a sample of 134 low- and mid-level managers from a Dutch food company, Jannsen (2001) found that there was a significant correlation between equity perceptions and supervisory satisfaction. In a study of African-Americans, Perry (1993) also

found that perceptions of underreward with respect to pay were negatively related to pay satisfaction. Studies by Sheehan (1991, 1993) investigated the effects of perceived underreward inequity that results when a coworker leaves the organization for a better job. Results indicated that the underreward was negatively related to both job satisfaction and performance.

Geurts et al. (1993), in a study of bus drivers, found that underreward led to increased conflict with supervisors and increased absenteeism. However, supervisor conflict mediated the relationship between inequity and absenteeism; therefore, the authors concluded that absenteeism could not be seen as a direct attempt by the bus driver to restore equity.

Studies of non-work relationships have also provided support for the postulates of equity theory regarding underreward. Ingersoll-Dayton et al. (2003) reported that siblings who described an imbalance in responsibilities pertaining to care of a parent reported considerable distress. In a study of couples where one of the individuals had cancer, Kuijer et al. (2001) found that those who felt underrewarded in their relationship were less satisfied with it than those who perceived equity or overreward. However, underreward did not lead to dissatisfaction in the relationship when the cancer patient was quite impaired physically. In another study involving cancer patients, Ybema et al., (2001), found that in couples where one person had cancer, the healthy partner was more likely to be depressed if she felt underrewarded in the relationship. Webster and Rice (1996) hypothesized that, in “traditional families” (i.e., where the husband is the breadwinner while the wife acts as homemaker), wives should perceive inequity after the husband retires, because his inputs are reduced while hers remain the same. Therefore, the wife may seek to reduce the tension associated with this underreward by moving toward equality in decisionmaking. Results indicated that decisionmaking concerning the purchase of

medium- and high-involvement products did become more egalitarian after the husband in a traditional family retired.

**2.2.6.3 Overreward.** Evidence concerning overreward has been substantially less conclusive than that concerning underreward (Campbell & Pritchard, 1976; Cosier & Dalton, 1983; Mowday, 1991; Walster et al., 1978). According to Adams (1963, 1965), overreward should lead to perceptions of inequity, dissonance, and, finally, guilt, or what O'Malley and Davies (1984) refer to as "an empathic negative affective state." However, two distinct motivating forces – equity and self-interest – may compete in conditions of overreward (Brounstein et al., 1980); thus, overreward may lead to a conflict between self-interest and guilt, and, if the overreward is not excessive, it may be justified because it is in the individual's self-interest to do so (Kuijer et al., 2001; Chen et al., 2002): by reciprocating a high level of outcomes with a lower level of inputs, a person's self-interest is promoted (Brounstein et al., 1980). Thus, individuals in an overreward situation may cognitively adjust (e.g., re-evaluate the value of their inputs or outcomes) because it is less costly for them to do so than to increase their actual inputs or lower their actual outcomes (Walster et al., 1978; Wilkens & Timm, 1978). As a result, overreward may not lead to behavioral attempts to restore equity. This position has come to be known as the "maximum gain hypothesis" (Fossum & Moore, 1975). Perhaps due to these conflicting motives, while the motivational effects of underreward have received relatively unambiguous support in laboratory and field studies (Cosier & Dalton, 1983), the empirical work concerning responses to overreward inequity has led to mixed results (Carrell & Dittrich, 1978; Mowday, 1991; Walster et al., 1978).

While Adams (1963) and others (e.g., Adams & Rosenbaum, 1962; Adams & Jacobsen, 1964; Andrews, 1967; Friedman & Goodman, 1967; Goodman & Friedman, 1968; Lawler,

Koplin, Young, & Fadem, 1968) found the hypothesized effects of overreward (for example, in a piece-rate pay system, overreward led to increased quality of work, but a decreased quantity), their experimental protocol (which was adopted by numerous others) has been the subject of considerable criticism (Andrews & Valenzi, 1970; Campbell & Pritchard, 1976; Carrell & Dittrich, 1978; Greenberg, 1990a; Hinton, 1972; Lawler, 1973; Pritchard, 1969; Pritchard et al., 1972). Many of these critics argue that Adams and his colleagues, in their attempts to induce perceptions of overreward, inadvertently manipulated other critical variables – specifically self-esteem and job security – which led to the observed performance enhancement that Adams attributed to the overreward. A typical instance of an attempt to induce a perception of overreward in early equity theory experiments was to inform the subject (who was to be paid at a particular rate for performing a given task) in a peremptory and cursory manner that they were not qualified to perform the required task, and would therefore be receiving more money than they were worth for performing it (Andrews & Valenzi, 1970; Campbell & Pritchard, 1976; Pritchard, 1969; Lawler, 1973). The improvements in performance which often resulted can thus be interpreted in three ways: 1) as a response to a perception of overreward and the guilt that accompanies it (as postulated by Adams); 2) as an attempt by the subject, as a response to his threatened self-esteem, to prove to the experimenter and himself that he is, in fact, qualified to do the task; or 3) as an attempt by the subject to avoid getting fired, which he might perceive as likely, given his lack of qualifications (Andrews & Valenzi, 1970; Campbell & Pritchard, 1976; Lawler, 1968, 1973; Pritchard, 1969). This third postulate conflicts with the work of Adams and Jacobsen (1964), who found that job insecurity did not influence subjects' behavior; however, Lawler (1973) asserts that Adams and Jacobsen's (1964) work does not represent an "ideal test" of the job insecurity postulate, and the above criticisms suggest that early studies (e.g., Adams,



1963; Adams & Jacobsen, 1964; Adams and Rosenbaum, 1962; Friedman & Goodman, 1968; Goodman & Friedman, 1968; Lawler et al., 1968) cannot be taken as clear evidence that overreward leads to dissonance and subsequent attempts to ameliorate the inequity, due to the possibility that their results are artifactual (Hinton, 1972).

In support of the latter position, in an early study similar to the flawed ones mentioned above but designed in such a way as to avoid the manipulation of self-esteem and perceptions of job security, Andrews (1967) found that, in a piece rate system, overrewarded subjects produced less than equitably rewarded subjects (in accordance with equity theory). However, the difference was not statistically significant, and most of the difference in production between the underrewarded subjects and the overrewarded ones was due to the underrewarded subjects producing more rather than overrewarded ones producing less, leading Pritchard (1969) to assert that Andrews' (1967) data do not support equity theory's predictions concerning overpayment.

Due to the dubious evidence concerning the results of overreward, many researchers have questioned the degree to which it leads to perceptions of inequity by the one being overrewarded. Some suggest that overreward may be related to positive affective and behavioral outcomes, such as satisfaction, commitment, loyalty, compliance, and acquiescence (Chenet et al., 2000; Huseman, Hatfield, & Miles, 1987; Vogl-Bauer et al., 1999). Others postulate that overreward inequity may be dealt with differently from underreward inequity - the "thresholds" for under- and overreward inequity may differ (Brounstein et al., 1980; Dansereau, Cashman, & Graen, 1973; Greenberg, 1987; Leventhal, Weiss, & Long, 1969; Mowday, 1991; Pritchard & Campbell, 1976; Weick, 1966) or individuals may differ in their "sensitivities" to overreward (Huseman, Hatfield, & Miles, 1985; Miles, et al., 1989). As a result, individuals may be more tolerant of overreward than they are of underreward.

Adams (1965:282) himself asserted that

“...the threshold would be higher presumably in cases of overreward, for a certain amount of incongruity in these cases can be acceptably rationalized as ‘good fortune’ without attendant discomfort...”

and Weick (1966), too, suggested that overreward might be viewed as the result of good luck. In a similar vein, Campbell and Pritchard (1976) asserted that, at least in organizational settings, overreward may be tolerated unless the overrewarded party perceives that the overreward implies that he or she is treating *someone else* unfairly: people may typically believe that the organization does not feel it is being treated unfairly (or it would lower the person’s outcomes or increase his or her inputs). Therefore, they will not strive to reduce overreward in such contexts.

Others have suggested that overreward may not be perceived as inequity at all (Cosier & Dalton, 1983). Locke (1976), for example, argues that employees who were being overpaid might see that restoring equity psychologically or cognitively is less costly than restoring actual equity: an overrewarded employee might rationalize the situation by adjusting her ideas of equitable payment rather than perceiving herself as being overrewarded and attempting to alleviate the inequity. Thus, even if an overreward condition is successfully created, employees may cognitively adjust themselves to that overreward (Kilduff & Baker, 1984). Likewise, Mowday (1991) posits that pay is a critical means for employees to derive information about the worth of their contributions; hence, overrewarded individuals may use outcomes they derive from a relationship as sources of information about the value of their contribution to the relationship, and an objectively overrewarded individual may therefore perceive his or her inputs to the relationship as very valuable, and so may not experience feelings of inequity; rather, the overreward will be seen as deserved (Brounstein et al., 1980; Weick, 1966). For example, Martin and Peterson (1987) suggest that an overrewarded employee might cultivate feelings of

desert by using a historical wage as a comparison rather than looking to a lower-paid colleague as a referent. This is consistent with Janssen's (2001) position that in employee-employer relationships, employees are more likely to perceive underreward (and have more intense reactions to it) than overreward.

Others have found that people vary in terms of "equity sensitivity" (Huseman et al., 1985): at least some individuals are, in fact, *more* satisfied with relationships characterized by overreward than with equitable relationships (Hartman, Villere, & Fok, 1995; Miles et al., 1989), and may strive to maintain overreward inequity (Brounstein et al., 1980). For example, Watson et al. (1996) found that overreward relative to a comparison income level resulted in significantly higher job satisfaction. If overreward is seen as desirable, it will not result in tension, and therefore will not result in motivation to rectify the overreward (Cosier & Dalton, 1983). Accordingly, Akerlof & Yellen (1990) state that people will work less hard if they are underrewarded, but will not work harder if they are overrewarded.

Substantial empirical evidence corroborates the position that overreward may be better tolerated than underreward. Greenberg (1987), in his study of 192 undergraduates, found that distributions of rewards that provided higher outcomes to the self tended to be perceived as fairer than distributions that provided them with lower outcomes. Similarly, Greenberg (1983) showed that subjects perceived as fair those outcome distributions that benefited themselves. Greenberg (1988), in a study where office reassignment created conditions of overreward and underreward, found that the performance of those who moved to higher status offices increased to a lesser degree than the performance decreases exhibited by those who were moved to lower status offices. Likewise, in that study, significantly lower levels of satisfaction were exhibited by some underrewarded individuals, but not by overrewarded ones.

Perhaps unsurprisingly, Vogl-Bauer et al. (1999), in a study of parent-adolescent dyads, found that adolescents are actually more satisfied when they are overrewarded in their relationship with a parent than when that relationship is characterized by equity. Lapidus and Pinkerton (1995) found that subjects in their inequitable, high outcome condition did not experience significantly more guilt than others, and in a study of couples where one party to the relationship had cancer, Kuijer et al., (2001) found that being overrewarded did not lead to reductions in satisfaction over being in a situation of equity.

In a study of Finnish workers, Taris et al. (2002) found that overrewarded subjects experienced less emotional exhaustion, cynicism, and health complaints (symptoms of dissonance) than their underrewarded counterparts. On four of the five dependent variables tested (emotional exhaustion, cynicism, lack of efficacy, and health complaints), there was no significant difference between overrewarded and equitably treated participants. Only measures of sickness absence were consistent with the initial formulation of equity theory, with equitably treated subjects evincing less than either overrewarded or underrewarded subjects. Thus, they concluded that the relationship between equity and health-related effects of inequity is J-shaped, rather than U-shaped as asserted by early formulations of equity theory: if indeed overrewarded individuals felt stress (which they may not have), they appeared to be able to deal with it. Many other authors similarly report weaker effects of overreward on dissonance (e.g., Anderson & Shelly, 1970; Perry, 1993; Valenzi & Andrews, 1971).

Culture seems to moderate responses to the perception of overreward. VanYperen & Buunk (1991), in their study of subjects from the U.S. and the Netherlands, found that for American subjects overreward resulted in reduced relationship satisfaction, while for subjects from the Netherlands overreward increased relationship satisfaction beyond the satisfaction

associated with equity, though culture's relationship with tolerance for overreward was moderated by communal orientation: those high in communal orientation did not feel guilty in overreward conditions. Scheer et al. (2003) hypothesized that in achievement-oriented, competitive cultures, overreward would be more tolerable than in more egalitarian, cooperatively-oriented cultures. In the former cultures, overreward would be seen as a validation of one's competencies and value, and would not be a source of guilt. They found that, contrary to the results of VanYperen and Buunk (1991), Dutch subjects were more likely to have negative responses to both overreward and underreward, whereas U.S. subjects did not necessarily respond negatively to overreward.

Some researchers have found that overreward inequity does result in some of the outcomes expected by Adams. For example, Pritchard et al. (1972) found that when inequity perceptions were elicited by changing a pay system at the halfway point of a week's work, overreward (as well as underreward) resulted in less satisfaction than did equity. Hauenstein and Lord (1989), in their study of baseball players, found that players that won in salary arbitration proceedings (and who they stated should therefore feel overrewarded), consistent with Adams' position, exhibited improved performance after arbitration.

Likewise, Van Dierendonck et al. (2001) found that among human service professionals, overreward resulted in emotional exhaustion even more than did equity or underreward, leading them to suggest that perceptions of advantage might be even more stressful than perceptions of relative deprivation. Van Dierendonck et al. (1996) similarly found that human service professionals who perceived overreward in their relationships with service recipients exhibited more emotional exhaustion than those who perceived equity in their relationships.

Levine (1993) looked at wage residuals (which compare employees' relative wages based on demographic, education, and training variables) for 8,000 employees. Employees with high wage residuals (and who should, therefore, feel overrewarded) were willing to work harder than they had to, were less likely to quit and more satisfied with their pay, and were more committed to the organization.

Brockner et al. (1988) contended that layoffs would inspire guilt in those who remained with the organization, as they would perceive themselves as overrewarded (assuming they thought there was at least a chance that they could have been laid off themselves). In an experiment employing undergraduate psychology and management students, an experimental confederate was fired part way through the experiment, either randomly or (ostensibly) based on merit (or lack thereof). "Survivor" subjects reported overreward and guilt. In a very similar experiment, Brockner, Davy, and Carter (1985) also tested the hypothesis that surviving a firing would lead to perceptions of overreward and feelings of guilt. As in the work of Brockner et al. (1988), an experimental confederate was fired part way through a task (while in a control group, no dismissal occurred). Results indicated that subjects in the layoff condition experienced more guilt and subsequently increased the quantity of their work.

Carr, McLoughlin, Hodgson, and MacLachlan (1996) found that Australian employees who were overrewarded with respect to others in their occupation were less satisfied than those who perceived equity with respect to their pay.

Finally, in a study of relationships involving cancer patients and their partners, patients who perceived overreward in the relationship exhibited more symptoms of depression than did those who perceived equity in their relationships (Ybema et al., 2001).

**2.2.6.4 Equity and Organizational Citizenship Behaviors.** Some recent work has looked at the effects of equity perceptions on organizational citizenship behaviors – discretionary behaviors that are not within the employee’s job description. Such behaviors can be regarded as a specific instance of the more general concept of “prosocial” or “helping” behaviors, and, in any relationship, a party can be seen as going “beyond the call of duty,” exceeding the expectations of the other party. Employees can adjust organizational citizenship behaviors in order to maintain equity without having an effect on variables such as salary, because they are not a necessary condition for employment (Harder, 1991). Moorman (1991) found that supervisors’ ratings of employees’ organizational citizenship behaviors varied with employees’ perceptions of interactional justice in the organization, while Niehoff and Moorman (1993) found that such behaviors varied with subjects’ perceptions of procedural fairness. Meanwhile, Deluga (1994) found that employees’ organizational citizenship behaviors were related to their perceptions of the fairness of their supervisor.

**2.2.6.5 Moderators of Responses to Inequity.** As noted, not all inequity leads to action taken to eliminate it (Cosier & Dalton, 1983; Weick, 1966). More recent theoretical and empirical work in equity theory has suggested that reactions to inequity are moderated by a variety of individual-level and interpersonal variables (Griffeth et al., 1989), including, but not limited to, exchange orientation (Buunk & VanYperen, 1991), nationality (VanYperen & Buunk, 1991), type of relationship (Wagstaff, Huggins, & Perfect, 1993), attraction to the comparison other (Griffeth et al., 1989), attribution of the cause of inequity (Holmes & Levinger, 1994), resource dependence, the costs of reaction, gender, and mood or dispositional variables. In the interests of brevity, I have summarized the literature concerning most of the moderators of responses to inequity in Appendix A. (One critical moderator, equity sensitivity, is discussed at greater length

below.) The appendix comprises the potential moderators, arguments concerning why they may act as moderators, and applicable empirical data.

### **2.2.7 Equity Sensitivity**

A substantial problem with early equity theory research was that it did not incorporate individual differences into its predictions (Brockner, O'Malley, Hite, & Davies, 1987; Huseman et al., 1987; Miles et al, 1994; Opsahl & Dunnette, 1966; Pritchard, 1969; Vecchio, 1981; Walster et al., 1978; Weick, 1966). Early work focused so much on contextual variables that researchers were led to “almost totally disregard the impact that personality variables may have on perceptions of equity” (Hochwarter, Stepina, & Perrewe, 1996: 458). As Opsahl and Dunnette (1966: 113) put it, “...there are distinct differences in the way different kinds of people respond to feelings of inequity. The incorporation of such variables into (equity) theory may increase its explanatory power. As it stands, the theory ignores individual differences.” Similarly, Lawler and O’Gara (1967: 410) suggested that when it “comes to understanding the role of personality and the importance of outcomes, it appears that further elaboration is needed if the theory is to handle individual differences in reactions to an inequity situation.”

Miner (1980) and Mowday (1991) averred that equity theory could not be considered a universal theory of human motivation unless it could account for observed differences in reactions to inequity. As a result, many authors called for the incorporation of individual differences into equity theory (e.g., Greenberg, 1979; Larwood, Levine, Shaw, & Hurwitz, 1979; Lawler & O’Gara, 1967; Major & Deaux, 1982; Miner, 1980; Mowday, 1991). One response to this criticism, and a key refinement of the original version of equity theory, came in the form of the “equity sensitivity” construct, first developed by Huseman et al. (1987), which represents a



parsimonious means to incorporate into equity theory a wide variety of personality variables that can moderate responses to inequity.

Proponents of equity sensitivity as an influence on responses to inequity note that the “distress prediction” of equity theory – that is, the proposition that the greater the perceived inequity in a relationship, the more distress that will be felt by the perceiver – assumes that all individuals are equally sensitive to equity. Under this assumption, all individuals will prefer relationships with equal outcome/input ratios. However, some research into reactions to inequity suggests that there are exceptions to the rule that inequity leads to distress: for example, demographic (Weick, Bougon, & Maruyama, 1976) and personality (Greenberg, 1979) variables seem to have an impact on the degree of distress associated with perceptions of inequity. Therefore, equity sensitivity researchers posit that people differ in their sensitivities to inequity such that some will tolerate inequity, and, indeed, some individuals may *prefer* inequity to equity (Parnell & Sullivan, 1992). This position is consistent with those of Adams (1965), and others (e.g., Mowday, 1991), who submit that “thresholds” for inequity may vary across individuals, and is also consistent with the research that suggests that individuals react differently to inequity (Major & Deaux, 1982) and that not all allocators of rewards follow norms of equity (Greenberg, 1978; Shapiro, 1975).

The acknowledgment of equity sensitivity has increased the predictive utility and explanatory power of equity theory by highlighting individual differences in the way people react to inequity in relationships (Allen & White, 2002; Bing & Burroughs, 2001; Kickul & Lester, 2001; King & Miles, 1994; King, Miles, & Day, 1993; Mueller & Clarke, 1998; O’Neill & Mone, 1998), and appears to help explain conflicting results in some studies of reaction to inequity (Fok, Hartman, Patti, & Razek, 2000). Differences in equity sensitivity may determine

whether or not the distress or tension identified by Adams as resulting from inequitable situations does indeed manifest itself, and thereby explain why some people do not react as predicted when confronted with inequity; that is, why they are not sufficiently motivated to act to reestablish equity in inequitable contexts. Such individual differences may be based on psychology (Major & Deaux, 1982), gender (Austin & McGinn, 1977), or culture (Fok et al., 1996), among other things. Individual differences such as these appear to manifest themselves through differential degrees of equity sensitivity.

**2.2.7.1 Equity Sensitivity “Types.”** In short, equity sensitive advocates propose that individuals react differently to perceived equity and inequity due to differences in preferences, and that these differential reactions are consistent over time. Huseman et al. (1987) propose that there are three basic classes of individuals: benevolents, equity sensitives, and entitleds.

Benevolents prefer their O/I ratio to be lower than that of the others in their exchange relationships, equity sensitives prefer their O/I ratio to be equal to the O/I ratios of others with whom they have exchange relationships, while entitleds prefer their O/I ratio to be higher than that of others with whom they have exchange relationships. Equity sensitivity can thus be viewed as a continuum, with entitleds at one end, benevolents at the other, and equity sensitives in-between (Mueller & Clarke, 1998). Based on this typology, only equity sensitives should behave in strict accordance with equity theory as formulated by Adams (1963; 1965).

Benevolents and entitleds will not necessarily behave as posited by Adams (Patrick & Jackson, 1991).

**2.2.7.2 Benevolents.** Benevolents are, at least on the surface, altruists, as they have a heightened tendency to give without expecting anything in return (Huseman et al., 1987), and derive contentment from knowing they have made a valuable contribution to a relationship rather

than from receiving valuable outcomes from it (Wheeler, 2001). They want to contribute more than they receive (Parnell & Sullivan, 1992), and are prepared to “cooperate and contribute” in relationships (Bing & Burroughs, 2001). They focus on inputs to a relationship rather than outcomes, and on the relationship dimension of the exchange (Huseman, et al., 1985; Kickul & Lester, 2001), such that, to them, the relationship itself is regarded as a valuable outcome (King & Hinson, 1994). Intangible, relationship based outcomes (e.g., friendship) are regarded as more important than tangible ones such as pay (Bing & Burroughs, 2001).

Miles, Hatfield, & Huseman (1989) suggest that the traits of benevolents could have their source in a Calvinistic heritage (which promotes a personal philosophy of high personal inputs without regard for outcomes) (Weick et al., 1976), empathic arousal (which motivates individuals to act altruistically), or “disguised self-interest” (King et al., 1993; Merton, Merton, & Barber, 1983). In the latter case, the benevolent acts in an altruistic manner in order to manage impressions (Sauley & Bedeian, 2000), gain social approval, or enhance his self-image. Whatever the derivation of the benevolent’s preferences, he will tend to feel distress when confronted with either equity or overreward in relationships.

While the original definition of a benevolent, depicted in Table 2.2, was that of an individual who preferred her O/I ratio to be lower than that of her comparison others, some later researchers suggest that benevolents, rather than preferring underreward, are simply more tolerant of it (King et al., 1993). For example, Miles et al. (1989) found that benevolents had a lower preference only for tangible outcomes, not intangible ones. In any case, a benevolent should be more satisfied than others in an underrewarding relationship (Huseman et al., 1987) or a relationship where his inputs are high (Miles et al., 1989). Thus, benevolents are less likely to respond (at least, overtly) when they are underrewarded (Allen & White, 2002): contrariwise,

being on the “receiving end” of a social exchange will be anathema to such a person (O’Neill and Mone, 1998).

**Table 2.2: Preferences of Equity Sensitivity “Types”**

Benevolents:	$O/I \text{ (person)} < O/I \text{ (other)}$
Equity Sensitives:	$O/I \text{ (person)} = O/I \text{ (other)}$
Entitleds:	$O/I \text{ (person)} > O/I \text{ (other)}$

**2.2.7.3 Equity Sensitives.** Equity sensitives are those individuals who prefer equity to inequity, and who therefore conform to equity theory as originally presented by Adams (1963; 1965).

They adhere to the norm of equity, and feel tension when faced with either underreward or overreward in a relationship. They will strive to reduce the inequity in the relationship in order to alleviate this tension. The behavior of equity sensitives has been discussed at length in the sections concerning responses to inequity.

**2.2.7.4 Entitleds.** Entitleds have a high threshold for overreward and any guilt associated with it (Huseman et al., 1987; Miles et al., 1989). For entitleds, satisfaction and receipt of rewards are positively and linearly related (King & Hinson, 1994): the more they can get out of a relationship, the better they like it. They experience less dissonance than others when they are overrewarded, and are more dissatisfied and more likely to act when they are underrewarded (Allen & White, 2002). They are also expected to be dissatisfied with equity (O’Neill & Mone, 1998). They can have a tendency to exploit and manipulate others, and put them into their service. Some entitleds feel they should receive more than they contribute simply because of who they are (Parnell & Sullivan, 1992), and they may use strategies such as shyness, charm, temper, or intimidation to get their way (Patrick & Jackson, 1991). They prefer to receive than

to give (Wheeler, 2001), and focus on outcomes from a relationship rather than inputs to it (Kickul & Lester, 2001; King & Hinson, 1994; Miles et al., 1994). Tangible outcomes such as pay are typically their focus, while intangible ones, such as friendship, are discounted (Bing & Burroughs, 2001). They tend to exhibit low social responsibility, and sacrifice work ethic in order to achieve personal gains (Mudrack, Mason, & Stepanski, 1999). Parnell & Sullivan (1992) characterize them as “greedy.” Huseman et al. (1987) speculate that an entitled orientation may stem from post-World War II cultural values, overly permissive child-rearing, or our “age of anxiety,” which leads one to get what he can before “trouble” arises.

**2.2.7.5 Influences of Equity Sensitivity.** Huseman et al. (1987) posit that equity sensitivity moderates the relationship between equity/inequity and organizational outcomes such as job satisfaction, quantity of work, quality of work, absenteeism, and turnover. While they suspect that equity sensitivity is a trait, they do not defend this position beyond referring to the relatively stable nature of values. Thus, it is unclear whether equity sensitivity is a relatively stable trait or a transitory one, and it is not clear whether a person’s equity sensitivity will be consistent across time and situations. Huseman et al. (1987) note that it seems possible that individuals exhibit different equity sensitivities in different types of relationships. For example, a person might exhibit entitled tendencies in his relationship with his employer, but exhibit benevolent tendencies in his relationships with family members. Thus, the type of relationship may act as a determinant of the degree of equity sensitivity a person displays in a given situation.

As noted earlier, some equity researchers are troubled by the ambiguity which surrounds the concepts of inputs and outcomes (Pritchard, 1969; Campbell & Pritchard, 1976). Specifically, what one regards as an input, another might regard as an outcome. For example, an employee that likes challenges might view added decision-making responsibilities as an

outcome, whereas another employee might view the acceptance of such responsibilities as an additional input. Huseman et al., (1987) suggest that equity sensitivity may act as a determinant of how such ambiguous job elements are regarded. They suggest that benevolents will be more likely to regard ambiguous job elements as outcomes, whereas entitlements will tend to regard them as inputs. Furthermore, entitlements might simultaneously regard such job elements as inputs for themselves, but outcomes to others.

**2.2.7.6 Evidence Concerning Equity Sensitivity.** A substantial number of empirical studies have investigated equity sensitivity. Empirical work has typically (though not universally) supported the concept (King & Hinson, 1994). It appears that equity sensitivity is indeed an important moderator of responses to inequity, and it seems to be a relevant predictor of a host of individual-level preferences related to equity theory, such as level of inputs into a relationship, and O/I ratio. It has also been found useful in the prediction of satisfaction with outcomes and preference for extrinsic versus intrinsic outcomes. Empirical studies concerning equity sensitivity are summarized in Appendix B.

### **2.2.8 Summary of Equity Theory**

Based on the existing literature concerning equity theory, it appears that perceptions of equity or inequity are a critical determinant of motivation. There is strong evidence that underreward in relationships leads to dissatisfaction and attempts to resolve the inequity. Evidence concerning underreward is much more equivocal, with some results indicating that overreward does lead to dissatisfaction with relationships in the ways proposed by Adams (1963, 1965), while other results suggest that overreward may be tolerated to a substantial degree or may even represent a source of satisfaction. Empirical work also indicates the existence of a wide variety of

moderators of responses to inequity, many of which are captured in the concept of equity sensitivity.

## **2.3 EXPECTANCY THEORY**

### **2.3.1 Background**

Expectancy theory has been called “perhaps the most widely accepted theory of work and motivation” (Wahba & House, 1974: 121) and the “dominant paradigm” for workplace motivation research (Connolly, 1976). In basic terms, expectancy theory posits that people’s behavior results from their expectations about the consequences of their actions.

Psychologists have a long history of analyzing actions using expectations and subjective values (Feather, 1992b). Early work of Lewin (1938), Tolman (1959), Rotter (1955) and others converged into an approach to motivation in industrial and organizational psychology that came to be called “expectancy theory,” though it is also sometimes referred to as “VIE theory” (for Valence, Instrumentality, and Expectancy Theory) or “expectancy X valence theory.” Like equity theory, expectancy theory is a process theory of motivation, in that it focuses on “classes of motivational constructs and the manner in which they interact as opposed to detailing the specific outcomes or needs that presumably motivate behavior” (Oliver, 1974: 244). It is also like equity theory in that it focuses on individuals’ perceptions. However, rather than concentrating on perceptions of fairness, expectancy theory states that motivation comes from perceptions of one’s likelihood of achieving or obtaining specific outcomes, and the values, or “valences,” one ascribes to those outcomes (House, Shapiro, & Wahba, 1974; Reinharth & Wahba, 1975). In short, a person will be motivated if: 1) effort expenditure will lead to successful performance of an activity, task, or behavior, 2) successful performance of that

activity, task, or behavior will lead to a specific outcome or outcomes for the person, and 3) the outcome or outcomes are valued by the person. Pay has been the most frequently investigated outcome in expectancy research, however some (e.g., Oliver, 1974) argue that there is no evidence that pay is the most important motivator, even in work settings. Outcomes can be psychological (e.g., satisfaction with a job well-done, a sense of camaraderie) as well as tangible (Oliver, 1974).

Lewin (1938) asserted that people have cognitive expectancies concerning the outcomes that are likely to occur as a result of their actions, and have preferences among various potential outcomes. The work of Lewin was followed by the development by others of other theories of motivation that included the concepts of valence – the attractiveness or importance of an outcome – and expectancy – the likelihood that a given action will lead to a certain outcome or goal (Lawler, 1994). These theories typically see expectancy and valence as combining multiplicatively to determine motivation. They include work by Edwards (1954) (subjective probability x utility), Atkinson (1958) (expectancy x (motive x incentive)), Rotter (1955), (expectancy, reinforcement, value), and Vroom (1964) (expectancy x (instrumentality x valence)). It was the work by Vroom (1964) that brought expectancy theory to the forefront of motivation theory.

The roots of expectancy theory lie in the principle of hedonism (Atkinson, 1964; Isaac, Zerbe, & Pitt, 2001; Reinharth & Wahba, 1975), which can be traced back to Greek philosophers, and was the principle underlying the utilitarian ethics of Bentham and Mill (Vroom, 1964). Hedonism assumes that people will behave in order to receive pleasure and/or avoid pain (Lawler, 1994). Likewise, in expectancy theory, behavior is seen as being motivated by a desire to maximize certain outcomes (e.g., rewards, satisfiers, positive reinforcements) and



minimize others (e.g., punishments, dissatisfiers, negative reinforcements) (Isaac et al., 2001; Vroom, 1964).

Reinhardt and Wahba (1975) aver that the cognitive assumptions of expectancy theory limit its explanations to the rational portion of human behavior. The rationality described in expectancy theory, though, may only be *perceived* by the actor: people perceive connections between certain behaviors and their goals, and behave in order to achieve those goals; however, their perceptions may be erroneous. Feather (1992b) asserts, therefore, that seeing expectancy theory as strictly based in rational self-interest represents an oversimplification of the model, since the model allows for the effects of affect-related variables, among others. Lawler (1994), too, notes the distinction between expectancy theorists' view of rationality and the concept of "economic man," who has full information concerning alternatives and their outcomes, unlimited information processing capabilities, and clear preferences between outcomes, and will therefore make optimal decisions that will appear rational to outside observers. Lawler (1994) accepts Simon's (1957) view of people as bounded in their rationality, tending toward satisficing rather than optimizing behavior, unable to consider all the outcomes of their behaviors, and prone to distortions of perception. They make decisions that are not optimal, and while these decisions may be "rational" to the actor based on his perceptions, they may not appear to be so from the point of view of an objective observer, because the observer may have different perceptions of, for example, alternatives, valences, or expectancies, or may be easier or more difficult to satisfy. Lawler's (1994) position, then, is that expectancy theory is based on "intended" rationality from the point of view of the actor rather than the rationality associated with economic man.

Though early results indicated that the relationship between expectancy variables and job performance was weak, leading some to be dismissive of expectancy theory, key proponents of expectancy theory did not in fact assert that there should be a strong relationship between these constructs, given the existence of mediator variables such as skills and ability (Lawler, 1973; Vroom, 1964). Furthermore, each of the components of expectancy theory has been confirmed to have a positive influence on motivation (Fudge & Schlacter, 1999).

In the decades since its initial development, expectancy theory has been “subjected to rigorous academic testing and has been shown to have strong support” (Fudge & Schlacter, 1999: 296). Expectancy theory has been applied to an astonishing variety of topics. Researchers have employed it to investigate, among other things, job satisfaction of a wide variety of groups (Miller & Grush, 1988; Pool, 1997), job effort and performance (Galbraith & Cummings, 1967; Graen, 1969; Hackman & Porter, 1968; Mastroski, Ritti, & Snipes, 1994), job turnover, occupational choice of student nurses, accountants, and others (Brooks & Betz, 1990; Miller & Grush, 1988; Mitchell & Beach, 1976), pay system effectiveness (Kraizberg, Tziner, & Weisberg, 2002; Lawler, 1973), student motivation (Campbell, Baronina, & Reider, 2003; Harrell, Caldwell, & Doty, 1985; Geiger, Cooper, Hussain, O’Connell, Power, Raghunandan, Rama, & Sanchez, 1998), training effectiveness (Mathieu, Tannenbaum, & Salas, 1992), professional obsolescence (Harel & Conen, 1982), technology use (Snead & Harrell, 1994), anxiety pathology (Schmidt, Lerew, & Joiner, 1998), social investment decisions (Fry, 1975), social loafing (Shepperd & Taylor, 1999), budgeting (Ronen & Livingstone, 1975), incentives (Kraizberg et al., 2002), competitive retaliation (Chen & Miller, 1994), political advertising (Pfau, Parrott, & Lindquist, 1992), values (Feather, 1992a), drug and alcohol use (Stacy, Newcomb, & Bentler, 1991; Oei & Baldwin, 1994), unemployment (Feather, 1992b), free-

ridership (Powers & Thompson, 1994), eating disorders (Hohlstein, Smith, & Atlas, 1998), children's motivation (Xiang, McBride, & Guan, (2001), unethical behavior (Fudge & Schlacter, 1999), underreporting by accountants (Lightner, Adams, & Lightner, 1982), and choice of sorority (Mastrofski et al., 1994), and has been applied to concepts such goal setting (Klein, 1991; Mento, Locke, & Klein, 1992), leader-member exchange (Klein & Kim, 1998), decisionmaking, learning theory, social power, coalition formation, attitudes, and a variety of others (Reinhardt & Wahba, 1975).

Perhaps because Vroom's (1964) theory was explicitly developed for organizational settings it has achieved, by far, the most popularity in organizational studies. For this reason, I will deal with the work of Vroom (1964) and subsequent developments of his model – particularly those of Lawler (1973, 1994) – in my subsequent discussions of expectancy theory.

### **2.3.2 Vroom's Theory**

Vroom (1964) was the first to apply expectancy theory to the study of behavior in organizations (Mitchell, 1974; Sheridan, Slocum, & Richards, 1974). Wahba and House (1974: 121) called Vroom's (1964) book "perhaps the most widely accepted theory of work and motivation among today's industrial and organizational psychologists." His theory describes the key components of expectancy theory: valence, instrumentality, and expectancy, and explains how their combination affects "motivational force." It hinges on the idea that employees are motivated by their perceptions concerning whether or not effort will lead to performance and performance will lead to rewards. The key components of Vroom's version of expectancy theory are outlined in the following sections.

**2.3.2.1 Valence of Outcomes.** People have preferences among outcomes or states, what Vroom (1964: 15) calls “affective orientations toward particular outcomes.” These affective orientations are the valences of those outcomes. In other terms, the valence of an outcome is a representation of the anticipated satisfaction associated with the outcome, though it is common to interpret the term “valence” to refer to the “desirability” or “importance” of an outcome. An outcome is positive in valence if the person prefers attaining the outcome to not attaining it, and negative in valence if the person prefers not attaining it to attaining it. However, due to the perceptual nature of valences, in many cases a person may in fact derive very little satisfaction from the attainment of an outcome that was expected to be the source of very much satisfaction, or may initially attempt to avoid an outcome that is found to be very satisfying once it is obtained. Thus, the valence of an outcome may differ substantially from the “value” of the outcome, the actual satisfaction derived from its attainment.

Vroom (1964) does not specify in-depth why people value outcomes, nor what outcomes are likely to be valued. In this sense, outcomes are “chosen” by the individual (Reinhardt & Wahba, 1975), and which outcomes are valued can vary drastically across individuals. In the literature, rewards that have been proffered as having high valences include pay, bonuses, promotion, and recognition, among others (Fudge & Schlacter, 1999); however, the valence of a given outcome can vary drastically across individuals (Isaac et al., 2001; Snead & Harrell, 1994), in part because a given outcome will satisfy – or fail to satisfy – different needs for different people (Lawler, 1973). Valences can also vary over time (Isaac et al., 2001; Sheridan et al., 1974), and across situations (Lawler & Porter, 1967). They are derived in part from the environment, and in part from personal characteristics (Lawler, 1994) and values (Feather, 1992b). Perceptions of outcome valences can be developed through communication from others

concerning the desirability of the outcome, the “degree of motive arousal” or “need state” (e.g., the length of time one has gone without sleep) (Lewin, 1951), and the frequency with which the outcome has been associated with an established reward or punishment (Vroom, 1964). For example, Kopelman and Thompson (1976) asserted that outcome preference could be seen as based on Maslow’s need hierarchy, with higher needs becoming more important as lower needs are met to a greater degree. Campbell et al. (2003) found that, of three outcomes, student subjects tended to focus on one to the exclusion of others, which suggests that individuals may focus on a single high-valence outcome as a source of motivation, and may be only marginally motivated by other, lower-valence outcomes.

**2.3.2.2 Instrumentality.** Some outcomes, such as the completion of a certain task, may be regarded as positive or negative in valence even if the person does not perceive them to be *intrinsically* satisfying or dissatisfying – that is, satisfying in and of themselves. In these cases, the valences of such outcomes are derived from the anticipated satisfaction associated with *other* outcomes, which are expected to result from attainment of the initial outcome. For example, a person might strive to do a good job at work not because the work itself is satisfying, but because she expects that good work will lead to a pay raise. Thus, “means acquire valence as a consequence of their expected relationship to ends” (Vroom, 1964: 16).

For this reason, Vroom’s concept of valence has two components: 1) the anticipated satisfaction associated with an outcome (as noted above) and 2) the perceived “instrumentality” of the outcome – its usefulness in facilitating the attainment of one or various other outcomes. For example, if a behavioral outcome (such as the performance of a work-related task) is expected to lead to desired outcomes or prevent undesired ones, its valence will be heightened, while if it is perceived as leading to undesired outcomes or inhibiting the attainment of a desired

one, its valence will be reduced. Thus, Vroom (1964) presents the valence of an outcome as a function as:

$$V_j = f_j \left[ \sum_{k=1}^n (V_k I_{jk}) \right] (j=1 \dots n),$$

where  $V_j$  is the valence of behavior  $j$ ,  $V_k$  is the valence of outcome  $k$ , and  $I_{jk}$  is the perceived instrumentality of behavior  $j$  for the attainment of outcome  $k$ . Instrumentality ranges in value from -1 (indicating that the second outcome is impossible without the first (behavioral) outcome and certain with it) to +1 (indicating that the first (behavioral) outcome is both a necessary and a sufficient condition for the second outcome). In other terms, instrumentality of an action is positive if performance of it results in attainment of an outcome, negative if it blocks attainment of the outcome, and zero if it has no effect on the attainment of the outcome.

**2.3.2.3 Expectancies.** Expectancies represent connections between effort and the successful achievement of an outcome (e.g., the accomplishment of a task or behavior), and are another part of what motivates individuals (Atkinson, 1958; Rotter, 1955; Tolman, 1959; Vroom, 1964). An “expectancy” in Vroom’s theory is defined as “the belief concerning the likelihood that a particular act will be followed by a particular outcome” (Vroom, 1964: 17). For example, a person considering undertaking a task will have perceptions concerning the likelihood that doing so will result in specific outcomes, such as the successful completion of the task. Expectancies are perceptions, and so represent subjective rather than objective probabilities (Lawler & Porter, 1967).

The concept of expectancy takes into account the fact that outcomes attained by an individual are dependent not only on his or her choices and behaviors, but also on many factors which are not under the control of the person. For example, whether or not one can complete a

given task is not dependent solely on her effort, but also on her ability and various environmental factors: there is uncertainty present due to various influences that could impede or facilitate her attempt to complete the task.

Whereas instrumentality is seen by Vroom (1964) as ranging from -1 to +1, expectancy, as a subjective probability, ranges from zero to one. Certainty that a particular act will be followed by a particular outcome represents maximum expectancy (an expectancy of 1), whereas certainty that a particular act will not be followed by a particular outcome represents minimum expectancy (an expectancy of 0). In Vroom's model, expectancy differs from the concept of instrumentality in that expectancy is an action-outcome relationship (i.e., it describes perceived relationships between actions and outcomes, such as successful task performance) whereas instrumentality is an outcome-outcome relationship (i.e., it describes perceived relationships between outcomes, such as that between successful task performance and other subsequent outcomes) (Vroom, 1964). Vroom (1964) noted that expectancies can be influenced by the objective probability that *i* follows *j*, communication from others (e.g., feedback), and vicarious learning. In general, though, as noted by Lawler (1994), expectancy theorists have not been particularly expansive in dealing with how expectancies are formed; however, as will be discussed in a subsequent section addressing his model, Lawler (1994) himself attempted to identify some of the key determinants.

**2.3.2.4 Motivational Force.** Valence and expectancy jointly determine what Vroom (1964) terms "motivational force," which is the force on an individual to engage in a particular activity. Vroom (1964) posits that the force on a person to perform a given act is "a monotonically increasing function of the algebraic sum of the products of the valences of all outcomes and the

strength of his expectancies that the act will be followed by the attainment of these outcomes” (Vroom, 1964: 18). Mathematically,

Force =  $\sum$  (Expectancy x Valence), or:

$$F_i = \left[ \sum_{j=1}^n (E_{ij} V_j) \right] (i=n+1 \dots m),$$

Where  $F_i$  is the force to perform act  $i$ ,  $E_{ij}$  is the strength of the expectancy that act  $i$  will be followed by outcome  $j$ , and  $V_j$  is the valence of outcome  $j$ .

The force function is conceived as a product because both valence and expectancy are seen as necessary but not sufficient conditions for motivation: an outcome high in valence does not motivate if the expectancy that that outcome can be achieved is zero. Conversely, an outcome that is certain to be accomplished (i.e., has a very high expectancy) does not motivate if one does not care whether or not the outcome is achieved (i.e., the outcome has a valence of zero). Furthermore, since the expectancy by valence products for all outcomes are summed, a highly valent reward may not be sought if negatively valent outcomes are also associated with the behavior required to attain it; thus, for example, tying a highly valent outcome, such as pay, to good performance on the job may not motivate one to perform well if good performance is also associated with excessive fatigue or stress (Lawler, 1994).

Vroom (1964) further asserts that when choosing between alternative acts, the one with the strongest positive (or weakest negative) force is the act that will be chosen. For example, if pay increases and job security might potentially be achieved through negotiation as well as through unionization, the activity that will be undertaken is the one with the greater motivational force. This criterion also holds for “non-acts.” For example, if unionization has a strong



motivational force, but not unionizing has a greater force, attempts to unionize will be unlikely to occur.

### **2.3.3 Developments of the Expectancy Model**

A number of writers after Vroom developed their own expectancy theories or further developed Vroom's model (Graen, 1969; Lawler, 1973; Lawler & Porter, 1967; Porter & Lawler, 1968).

Though Heneman and Schwab (1972) asserted that most of the variation in expectancy models has been due more to differences in terminology than to conceptual disagreements, some meaningful developments of the expectancy model did arise.

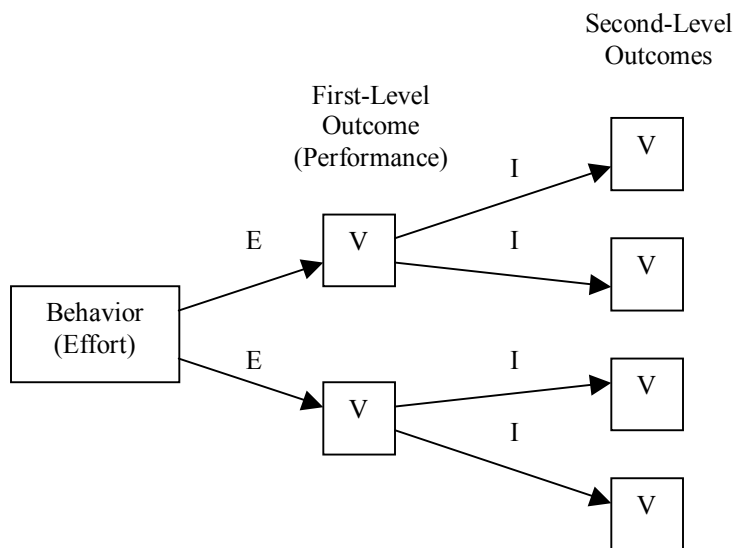
Since Vroom's work, there have been three key areas of development of expectancy theory: the differentiation between first-level outcomes (the level of performance associated with a given effort level) and second-level outcomes (the reward or penalty associated with the level of performance), the differentiation between intrinsic and extrinsic outcomes, and the inclusion of Expectancy 1 (or E-P expectancy) and Expectancy 2 (or P-O expectancy) as separate variables (House et al., 1974; Reinharth & Wahba, 1975; Wahba & House, 1974).

**2.3.3.1 First- and Second-Level Outcomes.** Galbraith and Cummings (1967) tested a distinction between first- and second- level outcomes, which had been suggested earlier by Vroom (1964) and Lawler and Porter (1967). First-level outcomes result directly from behavior (e.g., performing at a certain level). Their valences comes from their instrumentalities in obtaining second-level outcomes (e.g., pay, promotion, recognition), which have their own valences (and may have valences due to *their* instrumentality in obtaining other outcomes) (Lawler & Suttle, 1974). According to Galbraith and Cummings (1967),

$$W = \sum_{j=1}^n (\sum I_{ij} V_j)$$

W = effort; E = the expectancy that effort leads to performance;  
 I<sub>ij</sub> = the instrumentality of performance for the attainment of second-level outcomes;  
 V<sub>j</sub> = the valence of the second-level outcome;  
 n = the number of outcomes.

This represents a combination of Vroom's original effort and valence models. Job effort is predicted from the expectancy that a certain level of effort leads to a given level of performance weighted by the valence of that performance level. The valence of the performance level is determined by the degree to which it is perceived as instrumental for the attainment of second-level outcomes, which are weighted by their valences. The model was tested with only one first-level outcome: performance. This represented a simplification of the Vroom model, which did not restrict the number of first-level outcomes.



E: Expectancy that effort will lead to first-level outcome (e.g., task completion)  
 V: Valence of Outcome  
 I: Instrumentality (i.e., perception that first outcome will lead to second-level outcome)

**Figure 2.2: The Galbraith and Cummings Model (adapted from Mitchell (1974))**

**2.3.3.2 Intrinsic Versus Extrinsic Outcomes.** Early expectancy researchers have tended to focus on extrinsic outcomes; that is, those such as pay, recognition, or promotion, which are administered by others and are not directly associated with engaging in a given behavior (Isaac et al., 2001; Powers & Thompson, 1994). However, later researchers noted that outcomes can be extrinsic or intrinsic. Intrinsic outcomes are those that motivate due to “subjectively administered” rewards: those psychological rewards associated with, for example, working on a task, completing a task, or performing well (Campbell & Pritchard, 1976; Graen, 1969; House, 1971; Mastroski et al., 1994; Naylor, Pritchard, & Ilgen, 1980; Porter & Lawler, 1968; Lawler & Hall, 1970; Ronen & Livingstone, 1975). Indeed, some (e.g., Powers & Thompson, 1994) argue that one cannot be motivated to undertake an enterprise that is completely devoid of intrinsic value.

In some versions of expectancy theory, both extrinsic and intrinsic rewards are seen as important (Fudge & Schlacter, 1999). For example, an expectancy model developed by House (1971) incorporates the distinction between the valences associated with intrinsic and extrinsic outcomes. In House’s formulation:

$$M = IV_b + P_1 (IV_a + \sum_{i=1}^n P_{2i} EV_i), i = 1, 2, \dots, n$$

where

M = motivation to work

IV<sub>a</sub> = intrinsic valence associated with successful task performance

IV<sub>b</sub> = intrinsic valence associated with goal-directed behavior

EV<sub>i</sub> = extrinsic valences associated with the *i*th extrinsic reward contingent upon work-goal accomplishment

P<sub>1</sub> = the expectancy that goal-directed behavior will accomplish the work-goal

P<sub>2i</sub> = the expectancy that work-goal accomplishment will lead to the *i*th extrinsic reward

Graen (1969) classified the outcomes of meeting or not meeting the standards for specific work roles into three classes: intrinsic, internally generated consequences that the individual bestows upon herself if she achieves the standard (e.g., a sense of achievement) and extrinsic, externally mediated outcomes of two types – those provided by a person in power such as a supervisor, and those that are specified by the organization or the culture (e.g., pay) (Porter & Lawler, 1968). A factor analysis by Lawler and Suttle (1974) indicated that people do, in fact, distinguish between intrinsic and extrinsic outcomes.

Some (e.g., Ronen & Livingstone, 1975) argue that intrinsically valent outcomes are more motivating than extrinsic ones, because for intrinsic outcomes the behavior leads directly to satisfaction, whereas extrinsically valent outcomes are contingent on others. Support for this position comes from Tyagi (1985), who found that intrinsic motivation had a larger effect on performance than did extrinsic motivation, and Mitchell (1974), who reported that studies that test both intrinsic and extrinsic motivation found that intrinsic outcomes are better predictors of satisfaction and performance. On the other hand, Oliver (1974) suggests that intrinsic outcomes are “motivationally dysfunctional,” and argues that psychological needs have been overemphasized in the expectancy literature. The same author (1974) found that some extrinsic outcomes were useful in predicting performance, but intrinsic outcomes were not.

Kanungo and Hartwick (1987) disagree with the intrinsic-extrinsic distinction. First, they point out that there is variation in the definitions of “intrinsic” and “extrinsic:” two common definitions coexist in the literature. The first definition is distinguished by its focus on the relation between the activity and the reward: intrinsic rewards are derived from the inherent nature of the task, while extrinsic rewards are external to or separate from the task. The second

definition focuses on the entity that administers the reward: intrinsic rewards are “self-administered” whereas extrinsic rewards are administered by others.

There does appear to be some disagreement among researchers concerning the appropriate definitions of the aforementioned terms. For example, Dyer and Parker (1975) asked members of a division of the American Psychological Association to provide definitions of intrinsic and extrinsic rewards. They found that 47% used the first definition, while 29% used the second. Furthermore, when asked to categorize various rewards as intrinsic or extrinsic, only one third of the rewards were classified as either intrinsic or extrinsic by more than 75% of respondents. Kanungo and Hartwick (1987), in an investigation of white-collar workers, found that even when respondents were provided with detailed definitions, there was considerable disagreement on whether a reward was intrinsic or extrinsic. When the first definition was employed, only 3 out of the 48 rewards they listed were categorized as either intrinsic or extrinsic by more than 75% of respondents. Results were somewhat better when the second definition was employed; however, still only 22 out of the 48 rewards were classified as either intrinsic or extrinsic by more than 75% of respondents. Kanungo and Hartwick (1987: 756) concluded, “Overall..., there does not seem to be a high degree of agreement among our respondents as they attempt to classify work rewards according to each of the definitional distinctions.” They therefore assert that the intrinsic-extrinsic construct is seriously flawed, and suggest that it be dropped from work in expectancy theory. Nonetheless, there does seem to be substantial face validity associated with the distinction between intrinsic and extrinsic rewards, with the result that the dichotomy is maintained in some of the literature.

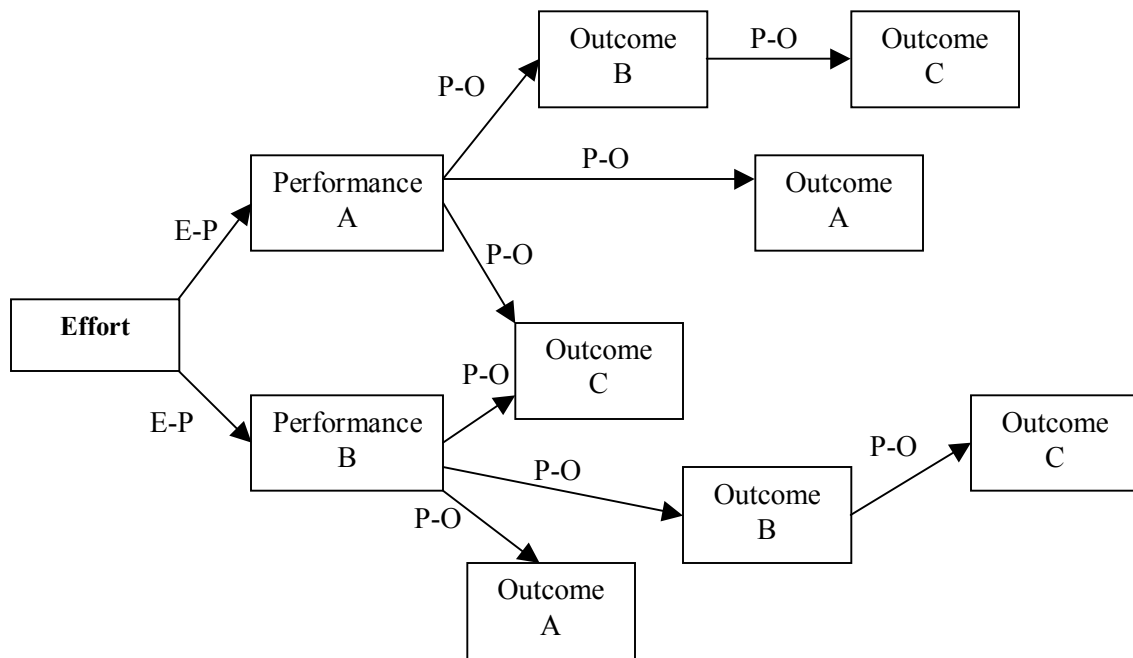
**2.3.3.3 E-P and P-O Expectancies.** Further modification of the expectancy model came from Campbell, Dunnette, Lawler, and Weick (1970). They distinguished between external task goals (set by the employer or work group) and internal task goals (which the individual sets for himself). Furthermore, they differentiated between two separate expectancies: EI and EII. EI is the expectancy that behavior (i.e., effort) will lead to task goals: this concept is the same as expectancy in Vroom's (1964) theory, and came to be known as "effort-performance expectancy," or E-P expectancy. EII is the expectancy that task goals will lead to rewards (i.e., valued second-level outcomes): this came to be known in later work as "performance-outcome expectancy," or P-O expectancy. P-O expectancy is roughly analogous to Vroom's (1964) concept of instrumentality. Though Vroom (1964) stated that instrumentality ranges from -1 to +1, most empirical tests of his theory treated instrumentality as a probability (Mitchell, 1974; Reinharth & Wahba, 1975), which is what EII represents. This eventually led to the widespread adoption of EII (P-O expectancy) as a replacement for the instrumentality component of Vroom's (1964) model. Most expectancy researchers today equate instrumentality with P-O expectancy (e.g., Fudge & Schlacter, 1999; Isaac et al., 2001).

Some researchers (e.g., Lawler & Porter, 1967) collapse EI and EII into one "effort-reward" expectancy, which represents the subjective perception of the likelihood that desired rewards will follow from certain effort levels: this has been a common approach in empirical work (Mitchell, 1974).

#### **2.3.4 Lawler's Expectancy Model**

Lawler (1973, 1994) developed an expectancy model that attempted to overcome criticisms of Vroom's model and incorporate various developments of the model into expectancy theory. His model can be seen as a culmination of the developments in expectancy theory that followed

Vroom's (1964) initial forays into the topic. Lawler's model regards motivation as a function of the perceived likelihood that effort toward a behavioral or task goal will lead to the successful accomplishment of that goal (E-P expectancy), the likelihood that the successful accomplishment of the behavior goal will result in the securing of outcomes or rewards (P-O expectancy), and the valence of these outcomes or rewards (V). An adaptation of Lawler's (1994) model is presented in Figure 2.3. Heneman and Schwab (1972) report general support for the Lawler model in a review of nine studies.



Performance A: The intended performance. A successful result from effort.  
 Performance B: Performance other than intended. An unsuccessful result from effort.  
 Outcome A: An outcome that is sought as an end unto itself.  
 Outcome B: An outcome sought as a prerequisite to other outcomes  
 Outcome C: An outcome that is possible whether or not effort leads to intended performance.

**Figure 2.3: Lawler's Motivation Model (Adapted from Lawler, 1994)**

**2.3.4.1 Expectancies.** Lawler refers to the two different types of expectancies: E-P expectancy and P-O expectancy. As noted, this approach is slightly different theoretically from Vroom's (1964), but it fits well with operationalizations used in much of the early expectancy theory research, which did not correspond exactly to Vroom's model (Heneman, 1971; Reinharth & Wahba, 1975). Effort – performance (E-P) expectancy is the person's subjective estimate that expending effort will lead to a “first level outcome” (Pool, 1997), successful performance of the intended behavior: for example, an employee appointed to a particular task will have an E-P expectancy concerning the relationship between putting forth effort and successful accomplishment of the task – he might think he has a 50 percent chance. Lawler asserts that this expectancy should be regarded as varying from zero to one: it is a subjective probability estimate concerning the likelihood of successful performance of a given behavior. He further states that this type of expectancy should be more salient for relatively complicated tasks than for tasks where the degree of ability or skill required is low. Some suggest that the relationship between E-P expectancy and motivation is not linear. For example, Isaac et al. (2001) suggested that tasks must be reasonably challenging in order to promote motivation (i.e., E-P expectancies should be moderate), as extremely unchallenging work leads to boredom, while overly challenging tasks are seen as unattainable.

P-O expectancies concern the perceived relationship between the first-level outcome – for example, successful task performance – and various other consequences, or second-level outcomes (Pool, 1997). For example, an employee might have a P-O expectancy concerning the connection between successful task accomplishment and the receipt of a promotion. Since a successful behavior may be related to many outcomes, several P-O expectancies may be associated with a given act.



Lawler (1973, 1994) states that it is possible to derive a motivation “score” similar to Vroom’s (1964) “motivational force” by taking the product of the E-P expectancy, P-O expectancy, and valence. The P-O expectancies for the various outcomes are multiplied by the corresponding outcome valences, all multiplied by the E-P expectancy. Mathematically,

$$\text{Motivation} = (E \rightarrow P) * \sum [(P \rightarrow O)(V)]$$

While Lawler (1994: 66) notes that some authors (e.g., Campell et al., 1970) suggest that it is “premature” to hypothesize multiplicative relationships between expectancy components, he asserts that “it is important to think of these terms as combining in a basically multiplicative manner.” The reason for this is similar to Vroom’s (1964) reason for asserting a multiplicative model. In the case of Lawler’s model, if either the E-P or the P-O expectancy is zero, no motivation is expected. An additive model, though, would imply that motivation occurs even when one of the expectancies is zero. This seems unreasonable on the face of it, as people do not seem to be motivated to undertake actions they know they cannot successfully accomplish (i.e., actions with a zero E-P expectancy). Likewise it would seem strange for a person to be highly motivated to undertake an action that will not lead to any valued outcome (i.e., that has a zero P-O expectancy or leads to outcomes with valences of zero): as Lawler (1994: 66) puts it, “people do not perform many tasks, even though it is obvious that they are able to perform these tasks.” Lawler (1994) also asserts that the multiplicative combination allows negative valences to accumulate so that “negative motivation” is possible, which is consistent with the observation that people avoid many activities.

In short then, Lawler’s model suggests that people will be motivated to undertake an action, task, or behavior if: 1) they perceive that they have a reasonable chance of doing so

successfully, and 2) they perceive that successful performance of the action, task, or behavior is positively related to obtaining desired outcomes.

Motivation is thus most directly related to effort; that is, one will direct effort toward behaviors that have high motivation scores. One may also choose between levels of effort based on their motivation scores. Many researchers (e.g., Lawler, 1973; Mastroski et al., 1994) note that motivation is only indirectly related to performance, since variables such as ability and situational factors moderate the effort-performance relationship: Oliver (1974) notes that while the variance in performance explained by the expectancy model is typically significant in empirical studies, it tends to be relatively low, while Seybolt and Pavett (1979) regard support for expectancy effects on performance as “weak to moderate.”

**2.3.4.2 Determinants of Expectancies.** Lawler (1994) goes further than does Vroom in specifying the determinants of the variables in his model. Concerning E-P expectancies, Lawler (1994) states that the most important determinant is the objective situation, though deficiencies in people’s perceptions imply that our expectancies may not correspond perfectly with reality. Another influence on our E-P expectancies is communications from other people, especially those with experience with the situation (Lawler, 1994; Naylor et al., 1980). For example, a new PhD student might develop a perception of her likelihood of success in the program through communication from more advanced students. Personality factors such as self-esteem may also play a role (Lawler, 1973): those with high self esteem may perceive themselves as generally more likely to be successful at various tasks (i.e., have high E-P expectancies). On the other hand, those low in self-esteem may have negatively biased perceptions of their abilities to carry out particular behaviors, and therefore underestimate themselves (i.e., have low E-P expectancies). A final influence on E-P expectancies is learning from experiences (Feather,

1992b; House, 1971; Lawler, 1994), or vicariously through observation of others: Lawler states that as one gains more experience in a given situation, her perceptions of the likelihood of success at a behavior or task will become more accurate, increasing the accuracy of her E-P expectancies.

Concerning P-O expectancies, they, like E-P expectancies, are strongly influenced by the objective situation (Lawler, 1994), past experiences with the situation and reinforcement history (Maki, Overmeier, Delos, & Guttman, 1995), and communication from others (especially high-credibility sources) about the situation (Galbraith and Cummings, 1967; Lawler, 1994; Naylor et al., 1980; Smith, Jones & Blair, 2000). They need not correspond to reality, though Lawler (1994) asserts that they tend to be fairly accurate. The importance of communications from others in determining P-O expectancy was empirically corroborated by the work of Smith et al. (2000), who found that managerial communication concerning sales potential was positively related to motivation.

Regarding past experience, while Vroom (1964) suggests that expectancy theory is future-oriented rather than a “hedonism of the past,” many (e.g., Maki et al., 1995; Porter & Lawler, 1968) assert that reinforcement history is critical in determinant of expectancies. Holhstein et al. (1998) and Naylor et al. (1980) suggest that observational and experiential learning are critical in the development of P-O expectancies, with differential learning histories leading to individual differences in expectancies, and thus to individual differences in motivation.

Another possible determinant of P-O expectancies is the nature of the outcomes: for example, positive outcomes may be seen as more likely than negative ones, and extremely positive outcomes may be regarded as less likely than moderately positive ones (Lawler, 1994).

E-P expectancies may also influence P-O expectancies: when E-P is about .5, a desire for achievement is triggered, and P-O outcomes related to achievement may be influenced.

Personality can affect P-O expectancy as well: for example, a person with an internal locus of control might have higher P-O expectancies in general than one with an external locus of control (Broedling, 1975; Giles, 1977). Broedling (1975) found that locus of control was indeed related to the concept of instrumentality (which corresponds to P-O expectancy) in his study. In a similar vein, Feather (1992b) states that attributional approach and perceived controllability – the degree to which the person believes that outcomes are related to internal forces versus external forces, luck, and fate – also influence P-O expectancies.

Both expectancies can change over time. For example, Sheridan et al., (1974), in a longitudinal study of nurses, found that expectancies changed over a fifteen month period. Many P-O expectancies can be influenced directly by policy makers: for example, organizations can manipulate the relationship between performance and pay, which should result in manipulation of employees' P-O expectancies.

**2.3.4.3 Determinants of Valences.** Lawler (1973; 1994) did not describe the determinants of valences in depth; however, Porter and Lawler (1968) suggest that satisfaction with an outcome affects future perceptions of its valence. They are unsure what the effect of satisfaction with a reward on valence is, but submit that it may depend on the type of reward. For example, satisfaction with food might reduce its valence, but satisfaction with a feeling of accomplishment might increase its valence. Naylor et al. (1980) argued that valence is largely determined by needs and “temporary need-state arousal.” The work of Campbell et al. (2003) suggests that the valences of various outcomes may vary across cultures, while the results of a study by Sheridan (1974) indicated that valences of outcomes may vary over time.

### **2.3.5 Multiplicative Versus Additive (and Other) Models**

One important debate in the expectancy literature concerns the efficacy of the multiplicative models that have typified expectancy research. While some (e.g., Campbell et al., 1970) did not explicitly propose the multiplicative combination of expectancies and valences, Vroom (1964) and Lawler (1973; 1994) both developed multiplicative models, as did other early expectancy advocates. Using such a model implies that, as Isaac et al. (2001) put it, “the motivational chain is... only as strong as its weakest link.” Thus, if any one of the three components of the model is zero, no motivation will be present. Oliver (1974: 251) asserts, though, that “no evidence exists on how individuals actually process valence and instrumentality perceptions.”

Some researchers have questioned whether a multiplicative model in fact explains more variance in motivation than a model that simply adds together the main effects of valence and expectancies (Heneman & Schwab, 1972; Oliver, 1974). For example, Stahl and Harrell (1981) argued that a less cognitively demanding and mathematically complex additive model may be just as effective at predicting motivation as multiplicative models. They assert that the multiplicative combination of valences and expectancies is too complex a process for individuals to undertake in real life.

In support of such a position, Heneman (1971), based on a study of department store managers, states that “the evidence appear(s) to offer little support for the hypothesized interaction between valence and instrumentality,” and suggests that the interactions among expectancy theory variables be deemphasized. Similarly, Heneman and Schwab (1972) found little support for the hypothesized interactions between valence, instrumentality, and expectancy, and Oliver (1974) found no evidence that a multiplicative model explained more variance in motivation than an additive one. Reinharth and Wahba (1975: 534), based on their study, stated

that “It... appears that the widely accepted aggregate model is no better than, and in certain circumstances is considerably inferior to, the individual components within the model”; however, they further asserted that the debate concerning multiplicative versus additive models may be moot “since a multiplicative relationship becomes additive with a logarithmic transformation of the variables.” Sybolt and Pavett (1979) also found that a multiplicative model did not improve prediction over an additive model, and the results of Harrell et al. (1985) indicated that 65 of 77 subjects used an additive model rather than a multiplicative one in making decisions: the use of a multiplicative model added in only a small degree to the predictive ability of the model, even for those individuals who used a multiplicative approach in making decisions.

Baker, Ravichandran, and Randall (1989) tested additive and multiplicative expectancy models, and asserted that while many of their subjects did adhere to the multiplicative model, it may not be the appropriate model for all individuals, since many other subjects favored an additive model. They assert that contextual, normative, and personality factors all may influence the functional form of individuals’ valence and expectancy calculations. The complexity and ambiguity of information, and the type, sign, range, number, and magnitude of outcomes may also influence the functional form of the decision model one uses: for example, if information is complex and ambiguous, a more simple (e.g., additive) expectancy model might be favored over a more complex one. Their general conclusion is that there is no one motivational model that fits everybody.

Lawler & Suttle (1974) tested the predictive value of various combinations of the components of expectancy theory. Results indicated that there were correlations between job behavior and some of the expectancy-type attitude measures, indicating support for expectancy theory, but though the full expectancy model (Lawler’s model) was the best predictor of

performance, it did not represent an improvement over the simpler measures, (E-P) or  $\sum(P-O)$ . Furthermore, weighting expectancy items by valence items did not increase the predictability of behavior: the authors speculate this may be due to range restriction of the valence measurements, social desirability bias, or people not being aware of what is truly important to them. They note that Porter and Lawler (1968) found that valence did increase the attitude-performance relationship.

Evidence supporting the multiplicative version of the equity model comes from Georgeopoulos, Mahoney, and Jones (1957), who found that the relationship between performance and P-O expectancies was stronger for those for whom pay was a high-valence outcome than for those for whom it was a low-valence outcome. Similarly, Porter and Lawler (1968) found that the relationship between E-P expectancies and performance was stronger when the outcome was important to the subject than when it was not. Work by Galbraith and Cummings (1967) also fits the multiplicative model: they found a significant interaction between valence and P-O expectancies. Other evidence supporting the multiplicative model comes from Lawler and Porter (1967) and Hackman and Porter (1967): both of these studies also found the predictive power of P-O expectancies with respect to performance increased when multiplied by the importance subjects ascribed to pay.

Some expectancy researchers have proposed what can be described as the “valence dominance” hypothesis. For example, Geiger et al. (1998) tested an expectancy model for its ability to predict student motivation in various cultures. They found that expectancy theory variables did predict students’ effort levels across cultures, but the valence of academic success dominated expectancy in predicting effort. Only students from Singapore emphasized expectancy over valence. Valence dominance has also been found by Harrell et al. (1985) and

Geiger and Cooper (1996). However, Campbell et al. (2003) did not find valence dominance in their sample of Russian students. Indeed, the majority of students in three of four groups weighted expectancy more heavily than valence in determination of effort. Campbell et al. (2003) suggested that the degree of valence dominance is determined in part by values and gender, but is not determined by organizational forces.

Mitchell (1974) suggested that attainability of an outcome (i.e., expectancies) may be related to its attractiveness (i.e., its valence). A difficult to attain outcome might be perceived as more valuable whereas a very easily attained outcome might be seen as low in value. Thus, expectancies and valences may not be independent. Yancey, Humphrey, and Neal (1992) found evidence suggesting that the components of expectancy theory may, in fact, have countervailing influences on performance, such that their effects cancel each other out.

### **2.3.6 Summary of Expectancy Theory**

Based on the literature, it appears that the components of expectancy theory – E-P expectancy, P-O expectancy, and valence – do have an important impact on motivation, though it has not been established unequivocally how those components can best be combined to predict effort, and such motivational impacts need not necessarily translate into improved performance, due to mediating variables such as ability.

## **2.4 CHAPTER SUMMARY**

In this chapter I explored the substantial literatures concerning both equity theory and expectancy theory. In the next chapter, I combine concepts from expectancy theory with those of equity theory to develop a framework for understanding stakeholder motivation to take action against a FO.



### **3.0 THE THEORY**

In this chapter, I recapitulate briefly the key premises of equity theory and expectancy theory, and argue that both motivation theories can be applied to understanding stakeholder-FO relationships: in particular, these theories can be employed to make predictions concerning the likelihood that a stakeholder will take action against a FO (this includes “indirect” actions, such as the solicitation of assistance from other stakeholders in the stakeholder network in sanctioning the FO). Finally, I develop a framework – based on both equity theory and expectancy theory – for understanding stakeholder propensities to act.

#### **3.1 EQUITY THEORY AND ITS APPLICATION TO STAKEHOLDER ACTION**

##### **3.1.1 Recap of Equity Theory**

Equity theory hinges on the inputs that social actors make into an exchange relationship and the outcomes they derive from that relationship. Inputs represent “investments” in the relationship for which the contributor expects something in return. Outcomes are resources, returns, rewards, or compensation that the actor derives from the relationship. Both inputs and outcomes are perceptual concepts: they are only important in determinations of the degree of equity in a relationship to the extent that they are perceived as relevant inputs and outcomes by the parties in the relationship. Each party compares its inputs to and outcomes from the relationship with the inputs and outcomes of the other party in the relationship, or another party who is in a similar exchange relationship, and develops perceptions of equity based on this comparison. Inequity for a social actor exists when she perceives that the ratio of her outcomes from the exchange

relationship to her inputs to the relationship is different from the corresponding ratio of the comparison other. Equitable relationships are usually the most satisfying for both parties in an exchange relationship. Inequities, on the other hand, are expected to produce “tension,” or “dissonance” which leads to motivation to reduce the inequity. However, overreward may be tolerated better than underreward, and sensitivities to inequity may differ across individuals.

### **3.1.2 Equity Theory Applied to Stakeholders**

Given that stakeholder management implies, in part, making decisions concerning the allocation of resources among a variety of constituents (Freeman, 1984), concerns of fairness (i.e., equity) in the distribution of resources – and the implications of fairness for stakeholder support of the FO – are implicitly acknowledged in much of the stakeholder literature (Husted, 1998). As noted by Adams (1965), the “person” and the “comparison other” in the exchange relationship need not refer to individuals: they may also represent groups or organizations. Husted (1998) points out that though concepts of justice are commonly applied in the context of employee-employer relationships, such concepts are easily applicable to relationships between the FO and its other stakeholders: stakeholders compare their inputs to the FO to the outcomes they derive from it, and use this comparison make assessments concerning the fairness of the FO’s resource allocations. Therefore, equity theory can be applied without undue extension to understanding the role of fairness in relationships that exist between FOs and their stakeholders.

Hill and Jones (1992) note that the firm-stakeholder relationship represents an exchange relationship. In compensation for providing resources or other support necessary for firm survival, various groups or organizations may require certain actions from it (Pfeffer & Salancik, 1978). Thus, stakeholders provide the firm with critical resources, in exchange for which they expects their interests to be met. For example, stockholders provide capital, and in exchange,

they expect a return on that investment. Creditors finance the firm, and expect repayment in exchange. Managers and employees provide time, effort, abilities and skills, and expect adequate working conditions and a fair income in exchange, communities provide location and infrastructure, and expect the firm to enhance – or at least avoid damaging – the community in exchange. Similar exchange relationships occur between the firm and all other stakeholders. Thus, FO-stakeholder relationships are based on exchange, and certainly both the FO and any given stakeholder will have particular opinions on what constitutes a fair exchange in their relationship: the FO or any one of its stakeholders may perceive the other's treatment of it as "unfair" or "inequitable." For this reason, too, equity theory seems to be a reasonable and useful way of understanding a stakeholder's motivations in its relationship with the FO.

### **3.1.3 Equity Theory and Stakeholder Action**

Stakeholders and FOs exist in exchange relationships that are susceptible to perceptions of inequity by either party. Furthermore, Husted (1998: 647) argues, "Fairness in... decisions... is logically an essential element in stakeholder perceptions of the firm *and in their willingness to support the firm*" (1998: 647). A stakeholder's propensity to aid, cooperate with, or act against a FO, then, will be determined in part by its perception of the degree of equity in its relationship with that organization FO. Therefore, equity theory seems to be a reasonable and useful way of understanding stakeholders' motivations to act against an organization. Below, I present arguments concerning stakeholders' responses to the two types of inequity.

**3.1.3.1 Underrewarded Stakeholders.** The perception of underreward often leads to conflict when attempts to rectify the inequity are made (Kabanoff, 1991), and this can be the outcome in stakeholder-FO relationships. Consider a situation in which a stakeholder perceives that the ratio of outcomes it derives from the FO (whether they be tangible resources or some less tangible

consideration) to what it contributes to the FO is less than the corresponding ratio of the FO. Adapting Adams' (1965) notation, the following relationship holds (from the stakeholder's perspective):  $O_s/I_s < O_f/I_f$ , where  $O_s$  represents the outcomes the stakeholder derives from its relationship with the FO,  $I_s$  represents the inputs the stakeholder contributes to the relationship,  $O_f$  represents the outcomes the stakeholder perceives the FO to derive from the relationship, and  $I_f$  represents the inputs the stakeholder perceives the FO as contributing to the relationship. In situations where this relation holds, the stakeholder will perceive itself as underrewarded, will find the relationship inequitable, and will be motivated to take action to remedy that inequity. Reducing the inequity might require the stakeholder to take action against the FO in order to increase the outcomes it derives from the relationship, reduce the inputs it contributes to the relationship, or reduce the outcomes the FO derives from it. Thus, a stakeholder's propensity to act against a FO is positively related to the degree to which it perceives underreward inequity in its relationship with that organization.

As noted earlier, inequity may be perceived when the social actor is in a direct exchange relationship with the comparison other, *or* when both the social actor and the comparison other are in exchange relationships with a third party. Applying the latter notion to FO-stakeholder relations, a stakeholder may also perceive inequity when the ratio of its outcomes from its relationship with a FO relative to its inputs to that relationship is lower than the corresponding ratio of *some other stakeholder*. Again adapting Adams' (1965) notation, a stakeholder will perceive inequity when the following relationship holds:

$O_s/I_s < O_{co}/I_{co}$ , where  $O_s$  represents the outcomes the stakeholder derives from its relationship with the FO,  $I_s$  represents the inputs the stakeholder contributes to its relationship with the FO,  $O_{co}$  represents the outcomes some comparison other stakeholder derives from its relationship

with the same FO, and  $I_{co}$  represents the inputs that comparison other stakeholder contributes to the FO. Where this relation holds the stakeholder will again perceive itself as underrewarded, will find its relationship with the FO inequitable, and will be motivated to take action to remedy that inequity.

Threat of stakeholder action due to the perception of underreward underlies most stakeholder-FO relationships. For example, all stakeholders can use voice, a low-cost action, to make their opinions of the FO known. Threat of severance of the relationship is another general approach that stakeholders may use when their interests are not being met (though this may be a higher-cost option), since such a move can deny the FO critical resources which may, in extreme cases, threaten the survival of the firm (Hill & Jones, 1992): a dissatisfied customer, for example, can shop elsewhere, or, worse for the FO, convince others to likewise sever their relationships with the firm. Employees can quit their jobs. Shareholders can sell their stock. The repertoire of potential stakeholder actions taken against the FO is vast. Exacerbating this issue is the fact that various institutions (e.g., labor unions, special interest groups) have evolved to facilitate such action (Hill & Jones, 1992). Thus, labor unions can call for a strike if employees' interests are not being met, and special interest groups can organize a consumer boycott if consumers' interests are not being safeguarded.

**3.1.3.2 Resource Dependence in Responses to Underreward.** The degree of resource dependence (Pfeffer & Salancik, 1978) that a stakeholder exhibits with respect to the FO should be a critical moderator of its responses to underreward inequity. One's tendency to respond to inequity will be tempered if such response is very costly (Adams, 1965; Watson et al., 1996). Therefore, if a stakeholder is highly dependent on the FO for a critical resource (for example, if no substitutes are available), the propensity to act against the FO – especially by severing the

relationship – will be moderated because of the increased costs of action. In such circumstances, because behavioral responses are costly, cognitive responses to perceived inequity will be more likely (Watson et al., 1996).

Thus, sanctions in general, and severance of the relationship in particular, will be less common if the stakeholder exhibits a great deal of resource dependence on the FO, since, for example, severance of the relationship would mean the stakeholder no longer has access to critical resources. This is consistent with the position of Ring and Van de Ven (1994), who state that severance is more likely if alternative relationships exist that can satisfy one's needs. (If such alternatives are not available, a higher degree of resource dependence exists.) For example, an underrewarded employee who has no job opportunities due to a lack of skills or a very tight job market elsewhere will be more likely to cognitively adjust or submit to the inequity than to quit. On the other hand, if many job opportunities are available to her, quitting is a very viable option.

Resource dependence may also temper responses to inequity due to its influence on cognitive variables such as attributions. Kabanoff (1991) asserts that resource dependence is inversely related to power, and states that in a relationship characterized by power imbalance, the more powerful (i.e., less dependent) party will attribute some of the contributions of the weaker party to its own influence, and will therefore discount the contributions of the weaker party. As a result, the powerful party may feel justified in garnering more outcomes than the weaker party. Kabanoff (1991) also posits that the weak party is less likely to perceive “objective” violations of equity by the stronger party as such. Furthermore, should the weak party in fact object to underreward, the stronger party may be in a favorable position to provide a justification for the inequitable reward distribution. Thus, in a relationship characterized by a substantial power

imbalance (or a high degree of resource dependence for one party), the weak party in a relationship may be less likely to respond to underreward inequity, and motivation to restore equity will be weak, difficult to sustain, or lacking completely. In relationships characterized by low resource dependence (for either party), on the other hand, participants are more likely to engage in overt conflict aimed at remedying the inequity (Kabanoff, 1991).

There is some empirical evidence concerning the influence of resource dependence on responses to underreward inequity such as relationship severance. Zuo and Bian (2001) found that Chinese women who perceived inequity in their marriages tended to stay in those relationships, due to their lack of either resources or alternatives to their current marriage: attempts to negotiate a move toward equity could be countered with threats of divorce, which would have a negative impact on the standard of living of the wife. Therefore, Zuo and Bian (2001) assert that women dependent on their marriage tend to tolerate inequitable divisions of labor, or to regard them as fair (i.e., engage in cognitive distortion).

Watson et al. (1996) found that managers who were likely to be at their current job for another two years tended to express less dissatisfaction in the face of underreward than those managers who were not likely to be at their job for another two years. They assert that managers who were going to stay focused on cognitive adjustment to inequity rather than on behavioral responses to it. Managers that expected to move to another firm, on the other hand, were less likely to undergo cognitive adjustment in response to underreward inequity. These findings, too, suggest that behavioral responses to underreward inequity are much more likely to result in contexts where the underrewarded individual is not dependent on his or her exchange partner for a critical resource.

In the marketing literature, Hoffman and Kelley (2000) proposed that factors that increase the dependence of a customer on a particular service provider moderate responses to inequities in the relationship. Specifically, the related factors of customization and high switching costs increase the resource dependence of the customer on the service provider, and affect responses to inequity. If a customized product is unavailable elsewhere, resource dependence will be high, and a behavioral response to inequity is less likely (Alexander, 2002). Similarly, when switching suppliers is very costly (in terms of time, money, effort, and cognition), resource dependence will be high, resulting in high commitment (Alexander, 2002; Chenet, Tynan, & Money, 2000) and loyalty (Alexander, 2002; Olivia, Oliver, & Macmillan, 1992): severance of the relationship is less likely. Evidence from Hurley (1998) and Heide and John (1988) also supports this position: relationship commitment was positively related to switching costs.

In general, then, it appears that resource dependence should have an important influence on the propensity of an underrewarded stakeholder to take action against (and, especially, to sever its relationship with) a FO.

**3.1.3.3 Overrewarded Stakeholders.** How a stakeholder will respond to the second type of inequity condition, overreward inequity, is less clear. According to Adams (1965), just as an individual perceiving underreward inequity will be motivated to attempt to reduce that inequity, so an individual perceiving overreward inequity will be motivated to reduce it. However, in general, it seems that individuals are often much more willing to be overrewarded than to be underrewarded (Leventhal et al., 1972; Mowday, 1979; Vogl-Bauer et al., 1999): indeed, they may not perceive overreward as such. Generalizing from this idea, a stakeholder experiencing overreward inequity may *not* strive to reduce that inequity (should it, in fact, perceive it). That



is, one would not necessarily expect a stakeholder that perceived it was getting more out of its relationship with the FO relative to what it was contributing than was the FO (or a comparison other stakeholder) to do anything to alter the situation. Indeed, if the stakeholder's threshold for overreward was high enough (or, put another way, if its equity sensitivity was low enough), it might even try to *increase* its outcome/input ratio relative to those of the FO or other stakeholders.

#### **3.1.4 A Note on Stakeholders' Consideration of Other Stakeholders**

It must be noted that the outcomes a given stakeholder derives from a FO may also be associated with the interests of *other* stakeholders, or even those of non-stakeholders. Therefore, perceptions of inequity on the part of one stakeholder can be based in part on the FO's treatment of another stakeholder or a non-stakeholder. For example, a positive outcome to an environmentalist group could be the safety of a particular species. Such is the case with the International Fund for Animal Welfare (IFAW), which campaigns against seal hunting in Canada (Guy, 2000; Wilson-Smith & Deziel, 2000). In this case, the interests of the stakeholder (the IFAW) coincide with the interests of a non-stakeholder (the seals - though some (e.g., Driscoll & Starik, 2004; Näsi, Näsi, & Savage, 1998) would argue that the natural environment is a stakeholder, and, therefore, might argue that seals are stakeholders). Actions taken by the IFAW are responses to inequity, the perception of which is generated in part by sealers' and furriers' treatment of seals rather than their direct treatment of the IFAW. Thus, to any one stakeholder, the treatment of *another* stakeholder (or non-stakeholder) can represent an important outcome, and can therefore be an important determinant of the propensity of the first to take action.

## **3.2 EXPECTANCY THEORY AND ITS APPLICATION TO STAKEHOLDER ACTION**

### **3.2.1 Recap of Expectancy Theory**

According to expectancy theory, motivation to perform a given action is a function of: 1) perceptions of the likelihood of successful performance of the action (i.e., E-P expectancy), 2) perceptions of the likelihood that specific outcomes will ensue from that performance (i.e., P-O expectancy), and 3) the valence that the individual ascribes to those outcomes. Expectancies and valences are all subjective, and will vary across individuals.

### **3.2.2 Expectancy Theory Applied to Stakeholders**

It is readily apparent that not all discontented stakeholders will take action against the FO. For example, in her book, “Nickel and Dimed: On (Not) Getting By in America,” Barbara Ehrenreich (2001) documents how employees at a Wal-Mart store, though clearly feeling underrewarded by the company, showed little interest in taking action to rectify the situation. Therefore, in addition to perceptions of inequity, other forces must be at work. According to Mitroff (1983), stakeholders are usually conceived of as rational, calculating entities. Indeed, he states, “The most important property of stakeholders... is the presumption of rationality” (1983: 43). It is the rationality (or, at least, the *subjective* rationality) of stakeholders which leads to a contingency noted by Rowley and Moldoveanu (2003): a stakeholder must perceive that it has the ability to take action, or it will not do so. Both these concepts – subjective rationality and ability (or at least the perception of ability) – are concisely addressed in the concepts of expectancy theory. Hence, expectancy theory seems to be an appropriate framework for discussing what motivates stakeholders to act.

My application of expectancy theory to stakeholder-FO relationships is based on three assumptions, which are derived by generalizing from similar assumptions (about individuals) that are the basis of expectancy models of motivation.

1. Stakeholders have preferences concerning outcomes influenced by the FO. For example, employees might prefer more pay and more job security to less pay and less job security.
2. Stakeholders have expectancies concerning their abilities to undertake particular actions (that is, they have E-P expectancies). For example, employees might have expectancies concerning the likelihood that attempts to unionize will, in fact, lead to unionization.
3. Stakeholders have expectancies about the likelihood that particular outcomes will follow from those actions (that is, they have P-O expectancies). For example, employees might have expectancies concerning the extent to which a successful attempt to unionize will lead to higher pay and greater job security.

Based on these premises and the tenets of expectancy theory, I take the position that a stakeholder's motivation to act against a FO is determined in part by the expectancies and preferences it possesses.

### **3.2.3 Expectancy Theory and Stakeholder Action**

I assert that stakeholders will be motivated to act against the FO when the following conditions hold. First, the stakeholder must believe that taking a given action against the FO will lead to particular outcomes (i.e., it must have a positive P-O expectancy). Second, the stakeholder must ascribe positive values (i.e. positive valences) to those outcomes: a zero-valence outcome will not be a source of motivation. Third, the stakeholder must have some degree of belief that it can successfully undertake the proposed action (i.e., it must have a positive E-P expectancy). If any of these conditions does not hold, a stakeholder will not take action. Motivation resulting from positive expectancies and valences is thus seen as an underlying force behind stakeholder efforts to act against the FO. Therefore, I assert that a stakeholder is only likely to act against an organization if a highly valued outcome is at stake, it believes it can successfully undertake the

proposed action, and it believes that successful action is likely to substantially promote attainment of the outcome.

### **3.2.4 Influences on Stakeholder Expectancies**

A wide variety of variables can influence a stakeholder's expectancies concerning action against the FO. Rowley and Berman (2000) and Rowley and Moldoveanu (2003) list a number of factors that can influence the likelihood of stakeholder action. Many of these variables can readily be seen to have an effect on stakeholder expectancies.

One critical factor is resources, whether material (e.g., computers, manpower) or non-material factors (e.g., leadership) (Rowley & Moldoveanu, 2003). Simply put, a stakeholder that perceives that it lacks the resources to organize, mobilize, or otherwise undertake the required action is unlikely to do so. I submit that resource constraints affect the propensity for stakeholders to act, in part, by acting on expectancies: a stakeholder that perceives that it does not possess the necessary requirements to undertake a given action directed against the FO will have a low E-P expectancy, and so will be less likely to take that action.

Another precursor to stakeholder action identified by Rowley and Berman (2000) and Rowley and Moldoveanu (2003) is past action against the FO. Rowley and Moldoveanu (2003) point out that groups that have organized in the past are more likely to do so again because the relationships, norms, and common understandings concerning their interests developed in the past, along with experience with the action, make it easier for stakeholders to monitor the FO and coordinate with one another in taking action. In addition, costs (to the stakeholder) of action may be reduced when group infrastructure and a shared understanding of group goals have been developed through previous action.

These relationships, norms, and reduced costs of action should increase the stakeholder's E-P expectancies: experience with taking action in the past, reduced costs, and the existence of relationships to facilitate such action should lead to heightened perceptions that the stakeholder can successfully undertake the action. Furthermore, if action against the FO has, in the past, led to valued outcomes, P-O expectancies will be enhanced, further promoting stakeholder action. Rowley and Moldoveanu (2003: 210) note that "the influence of past action is transferable across focal organizations"; that is, past action by a stakeholder against one FO should raise the likelihood of it taking action against another FO. This should also be reflected in expectancies. For example, a stakeholder that has successfully organized a boycott in the past will have a higher expectancy that it can do so again to stand against a different FO: its E-P expectancy will be heightened with respect to organizations in general, not a specific FO. In general, then, both the infrastructure and norms developed during past actions and the outcomes of those actions will have effects on stakeholder expectancies concerning a proposed action, and so will affect the likelihood that that action occurs.

### **3.3 AN EQUITY/EXPECTANCY FRAMEWORK FOR UNDERSTANDING STAKEHOLDER ACTION**

Though there have been only a few attempts to look at expectancy and equity concurrently (e.g., Harder, 1991; 1992), perceptions of equity and expectancies will combine in their effects on motivation (Cosier & Dalton, 1983). Thus, it makes sense to consider the effects of both on stakeholder action simultaneously. Below I develop an equity/expectancy framework for understanding stakeholder propensities for action directed against an organization. The framework, depicted in Figure 3.1, considers stakeholder expectancies and equity perceptions concurrently to produce a typology describing those propensities.

		TYPE OF INEQUITY	
		Underreward	Overreward
E X P E C T A N C Y	High	Sanctions	Possible Aggrandizing
	Low	Submission or Severance	Contentedness/ Cooperation

**Figure 3.1: An Equity/Expectancy Framework for Stakeholder Action**

### 3.3.1 Dimensions

The framework includes two dimensions. The first dimension is “type of inequity” which represents the type of inequity the stakeholder perceives in its relationship with the FO. Of course, real equity perceptions are a continuous variable; however, for the sake of simplicity, and because reaction to inequity hinges pivotally on the *type* of inequity encountered in addition to its degree, I follow Mowday (1979) in reducing the inequity continuum to two conditions, “underreward” and “overreward.” The underreward condition represents a situation where the stakeholder perceives that its ratio of outcomes from to inputs to the stakeholder-FO relationship is lower than the corresponding ratio for either the FO (i.e.,  $O_s/I_s < O_f/I_f$ ) or a comparison other stakeholder (i.e.,  $O_s/I_s < O_{co}/I_{co}$ ). The overreward condition represents a situation where the stakeholder perceives that its ratio of outcomes from to inputs to the stakeholder-FO relationship is greater than the corresponding ratio for the FO (i.e.,  $O_s/I_s > O_f/I_f$ ) or a comparison other stakeholder (i.e.,  $O_s/I_s > O_{co}/I_{co}$ ).

The second dimension is “expectancy.” Lawler & Porter (1967) advise that effort-reward probabilities can be determined through a multiplicative combination of the effort-performance and performance-reward probabilities. Such a multiplicative approach to defining overall expectancy has also been suggested by Steers and Porter (1979) and Kopelman and Thompson (1976). While this approach is slightly different theoretically from Vroom’s (1964), it in fact corresponds well with much of the early expectancy theory research, which tended to combine instrumentality and expectancy. Furthermore, (Heneman, 1971), and Sybolt and Pavett (1979) found that combining expectancies resulted in better predictive validity than using both expectancies separately. Accordingly, this dimension represents the multiplicative combination of the stakeholder’s E-P expectancy (i.e., the expectancy that it can successfully undertake a given action directed against the FO) and its P-O expectancy (i.e., the expectancy that successful action against the FO will lead to desired outcomes). Like perceptions of equity, expectancy, which represents subjective probabilities, is a continuous variable. However, to simplify the framework I have reduced it to two levels, “high” and “low.”

The framework does not include a dimension representing the valence variable in the expectancy equation for deriving motivational force. It presumes that the FO has at least partial discretion over an outcome or outcomes that are of reasonably high positive valence to the stakeholder. It also presumes reasonable levels of visibility; that is, FO activities that influence outcomes to the stakeholder and are relevant for making judgments of equity are apparent to the stakeholder to some extent.

### **3.3.2 Explanation of the Framework**

According to the framework, different combinations of the equity and expectancy dimensions will lead to different stakeholder propensities to act against the FO. Consider first the northwest

quadrant. In this situation, action by the stakeholder against the FO is likely. Under these conditions, underreward inequity will result in motivation for the stakeholder to take action against the FO. Simultaneously, due to the high expectancy, the stakeholder will see attempting to take action against the FO as likely to be successful and to lead to desired outcomes, which will also motivate it to do so. In this case, then, equity and expectancy considerations will be compounded to produce a strong propensity for action by the stakeholder against the FO; that is, the stakeholder will be likely to impose sanctions on the FO. For example, Greenberg (1990b) found that groups of employees whose pay was temporarily reduced had significantly higher theft rates than groups that did not experience pay cuts. The equity/expectancy framework explains this result in this manner: some members of the former group suddenly perceived themselves as underrewarded relative to members of the latter. Furthermore, they saw theft as an achievable endeavor and a potential means to remedy the inequity (i.e., they had high expectancy). Therefore, they engaged in theft.

In the northeast quadrant, the stakeholder experiences overreward in its relationship with the FO combined with a high expectancy that action directed against the FO will be successful and will lead to desired outcomes. According to Adams (1965), overreward should lead the stakeholder to either increase its contributions to the stakeholder-FO relationship or reduce the outcomes it derives from that relationship, and indeed Harder (1992) found that overreward was positively related to team-oriented, cooperative behavior on the part of the overrewarded party. In this condition, therefore, the stakeholder may, due to the overreward, be very cooperative and even engage in prosocial, or “helping” behaviors (Masterson, 2001) in its relationship with the FO.



On the other hand, as noted earlier, overreward inequity is often tolerated, so stakeholder behaviors aimed at reducing this inequity may not ensue. Indeed, a stakeholder's threshold for overreward or sensitivity to equity may be such that it behaves in an "aggrandizing" manner, striving to get more from its relationship with the FO despite the overreward. Such aggrandizing behavior may occur in this quadrant because of the high expectancy: the stakeholder will believe that successful action against the FO, leading to desired outcomes, is a strong possibility. Thus, whether this overreward/high expectancy condition leads to cooperative or aggrandizing behavior is in part dependent on the degree to which the stakeholder is tolerant of overreward in its relationship with the FO.

In the southeast quadrant, where the stakeholder perceives itself to be overrewarded in its relationship with the FO, and the expectancy of successful action against the FO leading to beneficial outcomes is low, the stakeholder is not likely to engage in action directed against the FO. A stakeholder in this quadrant may exhibit a great deal of cooperation with the FO or undertake prosocial behaviors, and will not act against it. Despite the fact that overreward may be tolerated, aggrandizing behavior on the part of the stakeholder is not likely in this quadrant due to the low expectancy condition: even if tolerance for overreward is very high, the stakeholder will not perceive that action against the FO is likely to be successful and to lead to desired outcomes. Therefore, even if a stakeholder experiencing this combination of equity and expectancy conditions does not exhibit cooperation or prosocial behaviors, it is not likely to act negatively against the FO, instead exhibiting "contentedness."

In the southwest quadrant, where a stakeholder perceives underreward inequity in its relationship with the FO and low expectancy, the stakeholder is likely to be dissatisfied with its relationship with the FO, but will not see attempting to act against it as likely to succeed and

produce desired outcomes. Therefore, in this case, the stakeholder may submit to the inequitable relationship. Such submission to an inequitable situation due to low expectancies is evident in the findings of Makoul and Roloff (1998), who observed that the propensity to withhold relational complaints was negatively related to the expectancy that such complaints would lead to a change in the behavior of the subject's partner.

Adams (1965), though, asserts that severance of a relationship is one way to reduce the dissonance that results from an inequitable relationship. So, alternatively, a stakeholder in the underreward, low expectancy condition may choose to sever its relationship with the FO. This latter notion is consistent with the position that the perception of equity in a relationship is positively related to its maintenance (Dubinsky & Levy, 1989; Vogl-Bauer et al., 1999; Walster, Walster, & Traupmann, 1978) and the suggestion that a relationship characterized by the perception of underreward inequity is more likely to dissolve (Griffeth & Gaertner, 2001; Kunkel, 1997). However, Adams (1965) sees withdrawal from a relationship as a last resort in situations of inequity, though he does not elaborate on the conditions that will precipitate such action. It is generally thought, though, that individuals will choose the least costly approach to inequity reduction (Cook & Hegtvædt, 1983). Therefore, it seems likely that one factor that will have a very strong influence on which recourse – severance or submission – is undertaken is the degree of resource dependence (Barney, 1991) that characterizes the FO-stakeholder relationship.

Resource dependence has been identified as a source of stakeholder power over the FO (Pfeffer & Salancik, 1978; Jonker & Foster, 2002; Kochan & Rubinstein, 2000). Stakeholders that supply critical resources to the FO and put sufficient assets at risk that they can make legitimate claims will be better able to influence the FO. However, if a stakeholder exhibits

resource dependence with respect to the FO, this will represent a source of FO power over the stakeholder, and an impediment to the stakeholder's ability to sever its relationship with the FO. Resource dependence on the part of stakeholders can be the result of investments in or possession of specific assets relevant to its relationship with the FO (for example, employees with skills that are uniquely relevant to the FO) (Hill & Jones, 1992). Resource dependence also exists if the stakeholder depends on the FO for a non-substitutable resource: for example, if the FO is the sole supplier of a particular component.

Resource dependence on the part of the stakeholder increases exit costs (i.e., the costs associated with severance of the relationship) substantially (Hill & Jones, 1992). Thus, if the stakeholder is subject to a high degree of resource dependence on the FO, exit from the relationship will be unlikely due to its high cost, and submission of the stakeholder to the inequitable relationship will be the probable outcome in the southwest quadrant. On the other hand, where the stakeholder's resource dependence on the FO is low – for example, if it can easily find a substitute for the resources provided to it by the FO – exit may be a low-cost means of inequity reduction, and severance of the stakeholder's relationship with the FO becomes a very viable option. This position is consistent with Floyd and Wasner's finding (1992) that relationship commitment results, in part, from the limited availability of desirable alternative relationships, and the general argument that the likelihood of behavioral responses to inequity is inversely related to its cost (Adams, 1965; Watson et al., 1996).

### **3.3.3 A Note on the “Domain” of the Framework**

The above framework is based on the assumption of conflict in stakeholder-FO relationships. As noted earlier in this dissertation, the potential for conflict is typically seen as underlying stakeholders' relationships with organizations (Frooman, 1999; Lampe, 2001). Lampe (2001)

asserts that stakeholder-FO conflict, or the potential for it, gives the stakeholder concept its meaning. Frooman (1999) emphasizes the divergence of interests that characterizes many such relationships: often, the interests of the FO conflict with the interests of its stakeholders. For example, employees tend to prefer high wages, but it is often in the interests of a firm to keep wages low.

Essentially, the framework described above hinges on this idea of conflict between the interests of the FO and stakeholder; it focuses on situations where the stakeholder can forward its own interests by taking action against the FO, which may impede the interests of the FO. This limitation in the domain of the framework is evident in my focus on the implications of equity and expectancy perceptions for stakeholder action directed *against* the FO.

It is possible, however, that a stakeholder's interests may, in fact, coincide with the interests of the firm. For example, employees who are part of profit-sharing programs may promote their own interests by promoting the interests of the FO as a whole. In such situations, stakeholder propensities to take action against the FO might be very different from those depicted above, and prosocial behaviors might be more likely to occur, since by helping the FO the stakeholder might help itself. A coincidence of stakeholder-FO interests would lead to different propositions from mine: one might speculate, for example, that in these situations, the stakeholder's propensity to take action that "helps" the FO might be linked to the expectancy that it could do so, and the expectancy that doing so would lead to positive outcomes. This contrasts with my framework, in which expectancy is related to the stakeholder's propensity to take action *against* the FO.

### **3.3.4 A Note on the Dynamic Nature of Perceptions of Equity/Inequity**

It is also critical to acknowledge that the framework depicted above represents a “snapshot” of stakeholder propensities to take action against a focal organization; that is, it depicts those propensities at a particular point in time, and does not incorporate potential sources of dynamism, including the passage of time, in perceptions of equity or inequity in stakeholders’ relationships with FOs.

Researchers such as Vecchio (1982) and Cosier and Dalton (1983) assert that students of equity theory should (but seldom do) consider the moderating role of time, and argue that an accurate reflection of responses to inequity requires acknowledgment of a time parameter. Cosier and Dalton (1983: 313) argue that the feelings of tension associated with the perception of inequity might be modeled as “a geometrically declining weighted average of present and past levels of tension that have occurred in (the) relationship.” They assert that present and past inequities are cognitively combined and result in a given level of dissonance, which is reduced as time passes. Likewise, Carrell and Dittrich (1978) state that the perception of inequity is a transitory phenomenon that diminishes over time. Accordingly, both Vecchio (1982) and Cosier and Dalton (1983) altered previous mathematical representations of equity/inequity to include a time component, though these approaches have not caught on in the literature.

The moderating effect of time on the propensity to respond to inequity may be more pertinent to overreward situations than to underreward contexts. Cosier and Dalton (1983) assert that underreward, which, on average, produces greater tension than overreward, should remain salient for a longer time. This implies that time will have less of a moderating effect on responses to inequity in contexts of underreward than in contexts of overreward, at least in the short-term. This position is consistent with the work of Greenberg (1988), who found that an

initial extreme reaction to gross overreward was not sustained over time: overpayment in the second week of his study did not result in as extreme a reaction from subjects as overpayment in the first week. The temporary effects of overreward have also been found by Greenberg and Orenstein (1983) and Pritchard, Dunnette, and Jorgenson (1972).

Other evidence supporting this position comes from Lawler, Koplin, Young, and Fadem, (1968), who suggest that any sacrifice on the part of an overrewarded employee to restore equity is likely to be transitory, as the person would soon find that the inequity could be reduced in more favorable (i.e., less costly) ways than reducing outcomes or increasing inputs. They found that there was an effect of time on the quantity and quality of work produced by overrewarded subjects: subjects exhibited reduced work quantity and increased quality relative to equitably paid subjects in the first two-hour period (in accordance with equity theory's predictions concerning piece-rate pay), but this difference was not manifest in the second two-hour period, indicating that attempts to reduce inequity declined in that time period. However, the results of this study may have been contaminated by the manipulation used to induce overreward: subjects were told they were not qualified for the job, which, as noted earlier, may lead to alterations in subjects' work performance due to changes in their perceptions of job security and/or self-esteem (Andrews & Valenzi, 1970; Campbell & Pritchard, 1976; Pritchard, 1969; Lawler, 1973).

In any case, the potential moderating effect of the passage of time on the propensity to respond to inequity introduces an important caveat to the framework presented above. In effect, the framework implies that the stakeholder must be able to act relatively quickly based on its perceptions of the degree of inequity in its relationship with the FO: if the stakeholder does not have the capacity to act quickly on its perceptions, the passage of time may act to reduce its propensity to take action (irrespective of whether this action is aimed at helping or harming the

FO); however, it is not expected that such a propensity will be completely eliminated. The import of this time component should be greater for overrewarded stakeholders than for underrewarded ones.

Beyond the idea that the tension associated with perceptions of inequity generally diminishes over time, one must consider that various other forces may alter current conditions in ways that alter perceptions of equity/inequity. Such dynamism is not accounted for in the above framework. For example, finding out the level of pay of a newly hired employee may lead a longer-tenured employee to suddenly acknowledge the former as a relevant comparison other. As demonstrated by Chen et al. (2002), such changes in the nature of the comparison other can have an impact on perceptions of the equity/inequity status of the relationship: as the referent changes, equivalent outcomes will be seen as more or less favorable by the person, which, in turn, influences perceptions of the equity of the relationship.

More generally, any number of discrete events that affect the choice of comparison other or perceptions of ones own or the comparison other's inputs or outcomes can suddenly alter equity perceptions or make a preexisting inequity more salient than it was previously. The framework depicted above does not account for the changes in equity/inequity perceptions that can accompany such events, and so does not describe variation in the propensity of the stakeholder to act due to these occurrences; however, it is possible to envision a stakeholder "moving" from one cell of the framework to another as conditions change in ways that alter perceptions of the degree of equity in the stakeholder's relationship with the FO.

### **3.4 CHAPTER SUMMARY**

This chapter applied concepts from equity theory and expectancy theory to stakeholder relationships with a FO and described a framework, based on these concepts, for understanding stakeholder action. The next chapter presents hypotheses based on this framework and describes a study designed to test those hypotheses.



## **4.0 EXPERIMENTAL HYPOTHESES AND METHODS**

This chapter presents hypotheses derived from the theory presented in Chapter 3 and describes the methods I employed to test them. First, I present a general overview of the study, including the hypotheses and the experimental design. I then discuss the vignettes used to manipulate key variables, the manipulations themselves and checks of those manipulations, and how the independent variables were measured. Finally, I discuss my subjects and the pilot studies used to develop the instrument.

### **4.1 OVERVIEW OF THE STUDY**

#### **4.1.1 Hypotheses**

The purpose of my empirical study was to test hypotheses related to some of the key propositions implied by the equity/expectancy framework described in Chapter 3 and depicted in Figure 3.1.

The following experimental hypotheses were tested:

H1: A stakeholder's propensity to act against a FO is positively related to the degree to which it perceives underreward inequity in its relationship with that organization.

H2: A stakeholder's propensity to act against a FO is positively related to its expectancy that it can successfully undertake the proposed action and the action is likely to substantially promote attainment of some valued outcome.

H3: A stakeholder's propensity to engage in prosocial activities with respect to the FO is positively related to the degree to which it perceives overreward inequity in its relationship with that organization.

H4: The propensity of an underrewarded stakeholder to terminate its relationship with the FO is negatively related to the degree of resource dependence the stakeholder exhibits with respect to the FO.

H5: The propensity of an overrewarded stakeholder to act against the FO is positively related to its tolerance for overreward.

H6: The propensity of a stakeholder to exhibit prosocial behaviors with respect to the FO is negatively related to its tolerance for overreward.

In order to generate data that would provide evidence either supporting or disconfirming my hypotheses, I developed an experiment involving two vignettes. Each subject was asked to read both vignettes and respond to sets of questions concerning them. The vignettes manipulated key independent variables: “type of inequity,” “expectancy,” and “resource dependence.” Dependent variables in my study were subjects’ propensities to take various actions against the FO, (including severance of their relationship with the FO), and the likelihood that they would engage prosocial behaviors with respect to the focal organization. Measures of these variables are discussed at length in the sections concerning each of the two vignettes employed in my study. The instrument is depicted in Appendix D. Due to the length of the instrument, I have included only the variations corresponding to the underreward, low expectancy, low resource dependence condition and the overreward, high expectancy, high resource dependence condition.

#### **4.1.2 Experimental Design**

The experimental design was a post-test only 2X2X2 factorial design. A factorial design uses two or more independent variables (factors). Each factor comprises at least two levels. A basic depiction of a 2X2X2 factorial design, adapted from Shadish, Cook and Campbell (2002) is presented in Figure 4.1.

R	$X_{A_1B_1C_1}$	O
R	$X_{A_1B_2C_1}$	O
R	$X_{A_2B_1C_1}$	O
R	$X_{A_2B_2C_1}$	O
R	$X_{A_1B_1C_2}$	O
R	$X_{A_1B_2C_2}$	O
R	$X_{A_2B_1C_2}$	O
R	$X_{A_2B_2C_2}$	O

**Figure 4.1: Experimental Design**

R represents the random assignment of subjects to conditions.  $X_{A_iB_jC_k}$  represents the treatment assigned to subjects in that condition (Factor A, Level i; Factor B, Level j; Factor C, Level k). Factors A, B, and C were the independent variables “type of inequity,” “level of expectancy,” and “resource dependence,” each of which included two levels (underreward/overreward, high expectancy/low expectancy, high resource dependence/low resource dependence). O represents the post-test measurement which followed administration of the treatment.

I conducted the experiment using a between-subjects design. While expectancy theory and equity theory technically posit within-subjects effects, I used a between-subjects design for two reasons. First, I was concerned about the recruitment of subjects. Since undertaking the instrument corresponding to a single condition takes subjects about 20 minutes, it would be extremely difficult to find subjects who were willing to be exposed to all eight conditions. Second, I was concerned about the potential for respondent fatigue: even if it were possible to recruit subjects for such an extended period of time, it is unlikely that they would be able to focus on the tasks for that duration and differentiate meaningfully between the conditions. For these reasons, it was decided that a between-subjects design would be used, despite the fact that this is not strictly in accordance with equity and expectancy theories. This is, in fact, not an unusual approach in motivation research: it is worth noting, for example, that the substantial

majority of empirical tests of expectancy theory use a between-subjects design (Van Eerde & Thierry, 1996).

## **4.2 VIGNETTES AND ASSOCIATED MEASURES**

I have asserted that the propensity of a stakeholder to act against a FO will be positively related to the degree of underreward it perceives in its relationship and its expectancy that it can successfully undertake action that will alleviate the underreward. I further asserted that the type of action undertaken will vary with the resource dependence the stakeholder exhibits with respect to the FO: specifically, severance of the relationship is unlikely if the stakeholder is very dependent on the FO. Therefore, for my experiment I developed two sets of vignettes in order to manipulate subjects' perceptions of equity in their relationships with a FO, their expectancies that successful action can be taken against the FO to influence outcomes of importance to them, and the degree of resource dependence that characterizes the stakeholder-FO relationship.

In total, there were sixteen vignettes, each simulating the conditions of one of the four cells in the framework in Figure 3.1 in either a "high resource dependence" or "low resource dependence" condition. Eight vignettes depict an employee's relationship with his or her employer, while eight others depict a consumer's relationship with a retailer. In choosing these two relationship types, I was attempting to: 1) employ relationships that would universally be considered stakeholder-FO relationships according to widely used definitions of the term "stakeholder," 2) address more than one type of stakeholder relationship in order to increase the generalizability of my results, and 3) employ relationships to which virtually all potential subjects could relate.

## **4.2.1 Vignette 1: Employee-Employer Relationship**

**4.2.1.1 Vignette Summary.** Vignette 1 concerns an employee's relationship with his or her employer. I chose an employee-employer relationship for two general reasons. First, employees are without exception regarded as important stakeholders by researchers in the field; thus, this vignette deals with a critical stakeholder-FO relationship. Second, it was expected that most adults in the areas in which data collection was to occur would have at least some employment experience; therefore, putting the subjects in a situation in which they take the part of an employee would not subject them to an unfamiliar situation. The vignette is loosely based on one used by King et al. (1993) in their equity sensitivity experiment. The most important adaptations I made to their instrument involved expanding it considerably in order to allow for the possibility of manipulations of expectancy and resource dependence rather than just equity, and altering it to take place in a business school context, since it was expected that I would use undergraduate business students as my subjects.

The subject/employee in Vignette 1 is a university student, and works for the Center for Research in Organizational Behavior (the Center) in the university's Faculty of Business. At the beginning of the vignette, another individual, Person B, also works for the Center. Person B is meant to act as a comparison other for the subject/employee. Both the subject and Person B found their work at the Center through the University's Student Employment Office. Very little information concerning Person B is presented, since some variables associated with a comparison other (e.g., attraction) have been found to influence perceptions of equity (Griffeth, Vecchio, & Logan, 1989). In the vignette, both the subject and Person B are hired to code questionnaires. I stipulated that there is plentiful work for both, so the subject and Person B are not in competition for scarce resources: the reason for this stipulation is that some research

indicates that people's preferences concerning allocation norms (e.g., equity as opposed to equality) may be different in situations of finite reward pools versus situations in which the reward pool is not limited.

Both the subject and Person B are equally productive, and their supervisor makes a point of stating that they seem to be equal in terms of accuracy and speed; thus, the subject and Person B are equivalent in terms of key inputs into their relationships with the Center. Both individuals are also "typically paid the same wage," so the subject and Person B are likewise equal in regards to a key outcome from their relationships with the Center. Because, according to expectancy, a person is unlikely to be motivated if the valence of an outcome is zero, the vignette states that "it is very important to both of you that you earn money to support yourselves while attending university, as you can barely afford the tuition." The goal of this statement is to ensure that the subjects perceive pay as a high-valence outcome in this case.

In the vignette, after a few weeks of working at the Center, Person B is reassigned to a different research center, the Institute for the Study of Strategic Management (the ISSM). The term "Institute" and its abbreviation, "ISSM" were used to contrast Person B's new organization with "the Center" and so avoid confusing subjects. At the ISSM, Person B makes a different wage from what she made at the Center, and so now does not make the same wage as the subject/employee. It is made clear that the subject/employee is aware of this discrepancy, and that the discrepancy is not temporary.

Next, the vignette describes how student employees at University research centers have sometimes attempted to elicit pay increases from their employers, and indicates various means that have been used in such attempts. It then stipulates whether or not such attempts have typically been successful in actually eliciting such an outcome. The vignette then indicates that

“university by-laws prevent supervisors of student employees from retaliating against employees who take such actions.” The reason for the inclusion of this statement is that responses to inequity are expected to vary with the cost of the response (Adams, 1965). Retaliation by the supervisor against the subject/employee would increase the costs of action. This statement, then, is included to control for variations in the subjects’ perceptions concerning the likelihood of retaliation and the costs it implies.

The final statement in Vignette 1 indicates the extent to which there are other work opportunities for the subject/employee on campus or in the community.

#### **4.2.2 Manipulation of Independent Variables in Vignette 1**

This section describes the manipulations of independent variables employed in Vignette 1.

These manipulations are summarized in Table 4.1. For the sake of simplicity, the table explains each manipulation rather than presenting the actual vignette text used for the manipulation. The relevant text is highlighted in the vignettes reproduced in Appendix D. (The highlights were not included in the instruments administered to experimental subjects.)

**4.2.2.1 Type of Inequity Manipulation.** King et al. (1993) found that manipulation of outcomes was perceived as more important than manipulations of inputs in determining perceptions of equity, so outcomes to the subject/employee and Person B were the basis for my manipulations of equity. Pay was chosen as the outcome to be manipulated because it is a ubiquitous outcome in work-related studies concerning expectancy theory, and is commonly held to be an outcome that is high in valence. As noted, the valence of pay to both the subject/employee and Person B was emphasized by including the statement, “it is very important to both of you that you earn money to support yourselves while attending university, as you can barely afford the tuition.” A manipulation check (to be discussed later) was also incorporated

into the instrument in order to confirm that pay represented a high-valence outcome to the subject.

**Table 4.1: Manipulations Used in Vignette 1**

<b>Variable</b>	<b>Condition</b>	<b>Situation Depicted</b>
Type of Inequity	Underreward	Person B's wage is increased considerably compared to that of the subject/employee.
	Overreward	Person B's wage is decreased considerably compared to that of the subject/employee.
Expectancy	High	Actions by student employees aimed at securing pay increases have very often been effective.
	Low	Actions by student employees aimed at securing pay increases have never been effective.
Resource Dependence	High	There are very few other job opportunities that would offer similar or higher wages.
	Low	There are many other job opportunities that would offer similar or higher wages.

The type of inequity (underreward/overreward) was manipulated through the alteration of the wage of Person B when he/she is reassigned to the ISSM. In the underreward condition, Person B's wage increases from \$9.00/hr. to \$15.00/hr. (the subject/employee's wage is \$9.00/hr.) after the reassignment. This substantial change in the O/I ratio of Person B was expected to result in perceptions of underreward by the subject/employee. Conversely, in the overreward condition, Person B's wage decreases from \$15.00/hr. to \$9.00/hr. while the subject/employee's wage stays at \$15.00. This represents a substantial reduction in the O/I ratio of Person B, such that the subject/employee was expected to perceive overreward.

**4.2.2.2 Expectancy Manipulation.** For the expectancy manipulations in both the employee-employer vignette and the customer-retailer vignette, as for the framework presented in Chapter 3, I followed the approach of Lawler and Porter (1967) and Mowday (1979), and collapsed E-P expectancy and P-O expectancy into one "effort-reward" link, thereby relating effort to an



outcome without differentiating between the likelihood that effort will lead to a first-level outcome (e.g., an attempt to organize a strike will lead to successful organization of a strike) and the likelihood that that first-level outcome will lead to a second level-outcome (e.g., the successful organization of a strike will lead to a pay increase). Mitchell (1974) notes that this is a common approach in empirical work concerning expectancy theory.

Vignette 1 notes a variety of actions that student employees at University research centers have taken in attempts to elicit pay raises. It states,

“On occasion, student employees at various research centers throughout the University have used various means to try to obtain pay increases from their respective employers. They have, among other things, 1) complained to their superiors and to the Student Employment Office, 2) attempted to organize a union or attempted to join existing unions, and 3) organized impromptu “strikes,” wherein they temporarily stop reporting for work.”

The manipulation of expectancy occurs in the following sentence. In the low expectancy conditions, the vignette states, “Without exception, these attempts have been unsuccessful in bringing about pay raises.” This was expected to result in the subject/employee perceiving that undertaking action in an attempt to elicit a pay raise was very unlikely to work: the subject/employee was expected to perceive a low expectancy concerning the effort-reward relationship. In the high expectancy conditions, the vignette states, “Very often, these attempts have been successful in bringing about pay raises,” which was expected to result in the subject/employee perceiving that undertaking action against the FO is reasonably likely to elicit a raise in pay: the subject/employee was expected to perceive a high expectancy concerning the effort-reward relationship.

**4.2.2.3 Resource Dependence Manipulation.** In Vignette 1, I attempted to manipulate the subject/employee’s perception of his resource dependence on the FO by adjusting the availability of similar (or better) job opportunities. As noted, Vignette 1 induces the perception that the

subject/employee's job and the money it brings in are high in valence. If there are very few similar work opportunities available, the subject/employee is highly dependent on the Center for money, a key resource. If, on the other hand, alternative job opportunities are plentiful, this resource dependence is greatly reduced. Accordingly, in the high resource dependence conditions, the final sentence in the vignette reads, "...there are *very* few other work opportunities on campus or in the community that would offer you pay similar to or higher than what you make now," while in the low resource dependence conditions it reads, "...there are many other work opportunities on campus or in the community that would offer you pay similar to or higher than what you make now." In the overreward scenarios, the "higher than" stipulation was not included – its inclusion in the underreward scenario was necessary to suggest that working elsewhere might allow the subject/employee to reduce the inequity by leaving the Center: working elsewhere for the same pay could maintain the inequity.

The manipulations from the vignette were summarized immediately before the measures. Though there was some concern that this might make the nature of the manipulations too clear and thereby result in demand effects – that is, in subjects attempting to answer in such a way as to support (or contradict) my hypotheses – it was decided that such a summary was necessary due to the length and complexity of the vignette: I wanted to avoid leaving the subjects confused about what information was important, or having them focus on one manipulation at the expense of the others.

#### **4.2.3 Action Measures Used for Vignette 1**

The main goal of the action measures – the independent variables – was to address the likelihood that the subject/employee would take action against the FO, the Center. For that reason, the

vignette was followed by a set of questions regarding the likelihood that the subject/employee would engage in such activities.

The potential stakeholder actions identified in the vignette and the measures corresponding to it needed to be representative of the variety of possible actions that the subject/employee might take in the situation described in the vignette and the variety of possible responses to inequity described in the literature, while at the same time remaining practical and in accordance with common sense. The “list” of possible actions was developed in consultation with a variety of individuals. I developed a preliminary list. I then consulted with two faculty members and three PhD students who were familiar with the vignette, and adapted the list in accordance with their suggestions concerning amendments and additions. Finally, I consulted with five of the subjects employed in a preliminary test of my instrument (to be discussed later); however, no adaptations to the list were made based on this consultation. Actions included correspond to responses to inequity in work settings, such as complaints, manipulation of effort, acquiescence (i.e., doing nothing), turnover, sabotage, shirking, absenteeism, strike, unionization, and cognitive readjustment. The differences between the costs of undertaking the various actions were a concern, because responses to inequity are likely to vary with their cost. Therefore, for those actions which could not be undertaken at a negligible cost, the cost of the action in time and/or money was stated in order to control perceptions of this variable. The actual measures employ seven-point Likert scales anchored with “extremely unlikely” and “extremely likely” to denote the propensity for the subject/employee to take the corresponding action. These measures are reproduced in Table 4.2.

**Table 4.2: Action Measures for Vignette 1**

*In the above situation, what is the likelihood that you would:*

	Extremely Unlikely			Extremely Likely			
	1	2	3	4	5	6	7
<b>1.</b> Complain to your supervisor at <i>the Center</i> in an attempt to get a pay raise for yourself and other employees at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>2.</b> Complain to administrators at the Student Employee Office in an attempt to get a pay raise for yourself and other employees at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>3.</b> Do nothing about the situation?	1	2	3	4	5	6	7
<b>4.</b> Put more effort into your work at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>5.</b> Put less effort into your work at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>6.</b> Purposely commit coding errors in your work at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>7.</b> Call in sick to <i>the Center</i> the next time you want a day off?	1	2	3	4	5	6	7
<b>8.</b> Attempt to organize a strike by student employees at <i>the Center</i> ? (This will take about 12 hours & will cost you a day's pay. There are no other costs associated with this action.)	1	2	3	4	5	6	7
<b>9.</b> Participate in a strike organized by other student employees at <i>the Center</i> ? (This will take 6 hours & will cost you a day's pay. There are no other costs associated with this action.)	1	2	3	4	5	6	7
<b>10.</b> Try to reduce your workload at the Center (while working the same number of hours)?	1	2	3	4	5	6	7
<b>11.</b> Start trying to find another job?	1	2	3	4	5	6	7
<b>12.</b> Quit your job at <i>the Center</i> ?	1	2	3	4	5	6	7
<b>13.</b> Accept the idea that your work at <i>the Center</i> is only worth \$9.00 per hour?	1	2	3	4	5	6	7
<b>14.</b> Attempt to organize a union drive by student employees at <i>the Center</i> ? (This will take about 12 hours. There are no other costs associated with this action.)	1	2	3	4	5	6	7
<b>15.</b> Vote in favor of joining an existing union of student employees?	1	2	3	4	5	6	7
<b>16.</b> Advise others to seek employment at <i>the Center</i> ?	1	2	3	4	5	6	7

#### 4.2.4 Prosocial Action Measure for Vignette 1

I hypothesized that prosocial, or “helping” activities on the part of the stakeholder should vary with the degree to which overreward is perceived in the stakeholder’s relationship with the FO. For this reason, I needed to include a measure of the propensity of the stakeholder to engage in such an activity. Since the main purpose of my study was to investigate stakeholder action directed against the FO in order to sanction it rather than support it, I restricted myself to a single item for this measure. For the employee-employer vignette, I created a situation where the subject/employee was asked to work late at the Center one night as a favor to his supervisors: the likelihood of the subject/employee doing so was assessed using a seven-point Likert anchored with “extremely unlikely” and “extremely likely.” For Vignette 1, then, the prosocial measure was as follows:

Your supervisors have asked you to work a few extra hours at *the Center* one day next week to complete the coding of a specific batch of questionnaires that they need finished soon. Under the Guidelines of the Student Employment Office, you are only allowed to be paid for a certain number of hours of work at *the Center* every week, so *you would not make any additional money by complying* – you would essentially be volunteering in order to help out your supervisors and *the Center*. The Guidelines of the Student Employment Office also stipulate that you are **not** required to comply with requests like this and your supervisors assure you that there will be no repercussions if you choose not to.

	Extremely Unlikely			Extremely Likely			
<b>21.</b> What is the likelihood that you will agree to work extended hours at <i>the Center</i> one day next week, as your supervisors have asked?	1	2	3	4	5	6	7

#### 4.2.5 Manipulation Checks for Vignette 1

For Vignette 1, four manipulation checks were employed to ensure that the manipulations used in the vignette were effective. The purpose of these questions was to assess whether or not the subject understood her position in the scenario. Put another way, these manipulation checks permitted me to identify the accuracy of the subject’s perceptions of my independent variables:

type of inequity, expectancy, and resource dependence. Given that an outcome reasonably high in valence is an important factor in motivation according to expectancy theory, in addition to questions concerning the manipulations of the independent variables, I included a question to assess the extent to which the subject found the outcome (wage, in this case) to be a high-valence outcome. If subjects responded in ways that were not in accordance with my hypotheses, I could use evidence from these manipulation checks to rule out (or in) the idea that their responses were due to a misperception of the independent variables.

**4.2.5.1 Valence Check.** For Vignette 1, a single-item measure was used to assess subjects' perceptions of the valence of their hourly wage. The valence check was as follows:

<b>17. <i>In the above situation</i>, how important to you is your hourly wage? (1= not at all, 7= very important)</b>	1	2	3	4	5	6	7
--	---	---	---	---	---	---	---

In the expectancy literature, valences are usually operationalized as “important-unimportant,” “attractive-unattractive,” or “desirable-undesirable” (Mitchell, 1974). Thus, my operationalization of valence as “importance” is in accordance with the approaches typically used in expectancy research. If subjects' responses to this question were low, my study would be severely jeopardized. In expectancy theory, outcome valence is a critical determinant of motivation: a zero-valence outcome is not likely to result in any motivation. A subject/employee for whom the hourly wage is not at all important can be seen as regarding hourly wage as a zero-valence outcome, and therefore would not be expected to take any action against the FO in order to increase receipt of that outcome. In equity theory, motivation comes from a comparison of O/I ratios. A zero-valence outcome would presumably not be regarded as a relevant outcome, and so would not be included in the O/I ratio: again one would not expect the subject/employee

to take any action against the FO. Responses to this question were not expected to vary across conditions.

**4.2.5.2 Type of Inequity Manipulation Check.** For Vignette 1, the type of inequity manipulation check was:

<b>20. <i>In the above situation</i>, do you feel under-rewarded or overrewarded compared to Person B? <i>1=very under-rewarded, 7=very overrewarded</i></b>	1	2	3	4	5	6	7
--	---	---	---	---	---	---	---

The purpose of this check was to assess whether or not subjects actually perceived themselves to be in the inequity situation corresponding to their experimental condition. Mean responses to this question were expected to differ across the two “type of inequity” conditions. Specifically, those subjects in the underreward condition were expected to evince a mean response significantly lower than that of the subjects in the overreward condition. A non-significant difference would indicate that my type of inequity manipulation was ineffective. The mean response for subjects in the underreward condition was expected to be less than 4, while for subjects in the overreward condition, the mean was expected to be greater than 4.

**4.2.5.3 Expectancy Manipulation Check.** For Vignette 1, the expectancy manipulation check was:

	Extremely Unlikely			Extremely Likely			
<b>18. <i>In the above situation</i>, what is the likelihood that taking action in an attempt to bring about a pay increase where you currently work will, in fact, result in a pay increase?</b>	1	2	3	4	5	6	7

This check was used to determine whether or not subjects perceived the likelihood of successful action against the Center in a way consistent with the expectancy condition to which they were exposed. Mean responses to this question were expected to differ across the two expectancy conditions. Specifically, those subjects in the low expectancy condition were expected to

manifest a mean response significantly lower than that of the subjects in the high expectancy condition. A non-significant difference would indicate that my expectancy manipulation was ineffective.

**4.2.5.4 Resource Dependence Manipulation Check.** For Vignette 1, the resource dependence manipulation check was:

	Extremely Unlikely				Extremely Likely		
<b>19. <i>In the above situation</i></b> , if you tried to, what would be the likelihood of you finding a different job that pays as much as your current job at <i>the Center</i> ?	1	2	3	4	5	6	7

The purpose of this check was to assess whether or not subjects actually perceived themselves to be dependent on the Center for an income, a critical resource. Mean responses to this question were expected to differ across the two resource dependence conditions: those subjects in the low resource dependence condition were expected to exhibit a mean response significantly higher than that of the subjects in the overreward condition. A non-significant difference would indicate that my resource dependence manipulation was ineffective.

#### **4.2.6 Vignette 2: Customer-Retailer Relationship**

**4.2.6.1 Vignette Summary.** Vignette 2 concerns a customer’s relationship with a retailer. The reasons for my choice of this relationship were essentially the same as my reasons for using the employee-employer scenario: customers are without exception regarded as a critical stakeholder (at least, of those organizations that have customers), and I expected that virtually every one of my potential subjects has been in a customer-retailer relationship, so this situation represented another relationship with which my subjects would be familiar.

In Vignette 2, both the subject/customer and a comparison other, Person C, are freelance consultants who have been hired to do some work for a particular business. As in Vignette 1, I



provided very little information concerning the comparison other, since some variables associated with a comparison other have been found to influence perceptions of equity. For the same reason, I stipulated that the two are not associated with each other in any way except that they share a small office space, and I indicated that they are working on different parts of the same project; thus, they are not threatened by one another. The reason for these stipulations is, again, that responses to inequity may vary depending on the nature of type of association between the person and the comparison other: for example, overreward compared to a friend might lead to greater dissonance than overreward compared to a stranger, and thereby increase the likelihood of a behavioral response to the inequity.

In the vignette, both the subject/customer and Person C buy new laptop computers from Blu-Chip, a local electronics retailer. The computers are “house” models, built by Blu-Chip. The reason for this is that I wanted the source of the inequity to be clear: if the computer was from another company, the underreward (which, as will be explained later, involves the laptop ceasing to function) might be attributed by subjects to the manufacturer of the computer rather than to Blu-Chip. Since the action measures (to be discussed below) all relate to Blu-Chip, this would compromise my results substantially. Both the subject/customer’s laptop and Person C’s laptop are heavily customized. This allowed me to create a situation of resource dependence for the high resource dependence condition.

Both the subject/customer and Person C purchase a “Service Agreement” that offers repair or replacement of the computers (at no charge) if there are problems due to normal wear and tear, or certain other reasons. As will be explained, I needed to be slightly ambiguous concerning exactly what is covered by the service agreement in order for my type of inequity

manipulation to be effective. The laptop is identified as a critical resource for the subject/customer.

In the vignette, several months after the purchases, both the subject/customer's computer and Person C's computer are accidentally damaged when their office sprinkler system is activated. Since the two are independent contractors, their employer's insurance will not cover the repair or replacement of the computers. This stipulation was made to ensure that the subject/customer had to turn to Blu-Chip for help in this situation. The subject/customer and Person C take their computers back to Blu-Chip on separate occasions to have them assessed and ask if, by chance, Blu-Chip will cover the repairs. Each is told that their computer's CPU is "fried" and will need to be replaced. In each condition, only one person – either the subject/customer or Person C – has his CPU replaced at no charge. In the overreward conditions only, Blu-Chip offers to replace the subject/customer's CPU, but nonetheless the subject/customer wants a faster CPU (a "B6") put in at no charge. This stipulation was necessary because, given that I assert that "aggrandizing" behavior is a possible response to overreward, I needed to create a situation in which an overrewarded subject could place additional demands on Blu-Chip.

Next, the vignette describes how, in the past, Blu-Chip customers have taken a variety of actions in attempts to have their desires met by Blu-Chip. It then stipulates whether or not such attempts are typically successful. Finally, the vignette states whether or not the necessary CPU is available anywhere other than Blu-Chip.

#### 4.2.7 Manipulation of Independent Variables in Vignette 2

This section describes the manipulations of independent variables employed in Vignette 2.

These manipulations are summarized in Table 4.3. Once again, for the sake of simplicity, the table explains each manipulation rather than presenting the actual vignette text used for it. The relevant text is highlighted in the vignettes reproduced in Appendix D.

**Table 4.3: Manipulations Used in Vignette 2**

Variable	Condition	Situation Depicted
Type of Inequity	Underreward	Blu-Chip repairs Person C's computer at no charge, but does not repair the subject/customer's computer.
	Overreward	Blu-Chip repairs the subject/customer's computer at no charge, but does not repair Person C's.
Expectancy	High	Actions by Blu-Chip customers aimed at getting Blu-Chip to meet their desires have very often resulted in Blu-Chip doing so.
	Low	Actions by Blu-Chip customers aimed at getting Blu-Chip to meet their desires have never resulted in Blu-Chip doing so.
Resource Dependence	High	The CPU the subject/customer needs is not available anywhere except Blu-Chip.
	Low	The CPU the subject/customer needs is readily available from a variety of other retailers.

**4.2.7.1 Type of Inequity Manipulation.** As noted, manipulation of outcomes may affect perceptions of equity more than manipulation of inputs (King et al., 1993). Accordingly, I manipulated an outcome in Vignette 2. The specific tangible outcome in this vignette is a CPU, the central processing unit of a laptop computer; however, in more general terms, the manipulated outcome is “service recovery,” the extent to which a retailer attempts to change a negative situation into a positive one. This is, of course, a universal concern in customer-retailer relationships, and an effective service recovery should be a high-valence outcome to the customer. I attempted to emphasize the valence of this outcome by emphasizing the importance of the product relevant to the service recovery episode, the subject/customer's laptop computer.

To this end, I included the statement, "...your new laptop is a critical resource to you." As with Vignette 1, I included a manipulation check (discussed later) to verify that the subject/customer viewed the repair of their computer as a high-valence outcome.

I manipulated the type of inequity (underreward/overreward) in Vignette 2 by varying the service recovery practices of the retailer. In the underreward conditions, Blu-Chip offers to repair Person C's laptop at no charge, but refuses to do the same for the subject/customer. In the overreward conditions the situation is reversed: Blu-Chip refuses to repair Person C's laptop but repairs the subject/customer's at no charge.

**4.2.7.2 Expectancy Manipulation.** As noted earlier, for both vignettes I collapsed the two types of expectancy into one "effort-reward" connection. Vignette 2 identifies a variety of actions that Blu-Chip customers have taken in the past to attempt to have their desires met by Blu-Chip. It states,

"In the past, customers have taken a variety of actions to attempt to get their desires met by Blu-Chip. Among other things, they have complained to Blu-Chip management, sued Blu-Chip in small claims court or taken other legal action, posted the story of their concerns with Blu-Chip on the internet, filed complaints about Blu-Chip with the Better Business Bureau, and attempted to organize boycotts of Blu-Chip among their friends or the general public."

The expectancy manipulation follows immediately. In the low expectancy conditions, the vignette states, "However, without exception, these actions have failed to convince Blu-Chip to fulfill the customer's desires." This was expected to result in the subject/customer perceiving that taking action against Blu-Chip is likely to be fruitless, and lower expectancy. In the high expectancy conditions, the vignette states, "Very often, these actions have convinced Blu-Chip to fulfill the customers' desires," which was expected to result in the subject/customer having high expectancy concerning the effort-reward relationship.

**4.2.7.3 Resource Dependence Manipulation.** In Vignette 2, I attempted to manipulate the subject/employee's perception of his resource dependence on the FO by adjusting the number of other retailers from which he could obtain the desired CPU. As noted, Vignette 2 induces the perception that a working computer (and thus, a CPU) is a high-valence outcome for the subject/employee. If there are no other retailers that sell the required CPU, the subject/customer will be highly dependent on Blu-Chip for this resource. On the other hand, if many other retailers sell the required CPU, resource dependence is low. Accordingly, for the underreward situations, in the high resource dependence conditions, the final sentence in the vignette reads, "Due to the highly customized nature of your computer, and the fact that its CPU is a component manufactured especially for Blu-Chip, you would not be able to find a replacement CPU from another retailer," while in the low resource dependence condition it reads, "It would be easy for you to find another retailer that can provide you with a suitable CPU for about the same price that Blu-Chip will charge you." In the overreward situations, (where Blu-Chip has offered to replace the subject/customer's CPU, but the subject/customer asks for a better CPU, the "B6"), the final sentence in the high resource dependence conditions reads, "Blu-Chip manufactures the B6, so it is the only place you will be able to purchase one," while in the low resource dependence conditions, it reads, "The B6 is readily available from a wide variety of computer retailers."

As with those of Vignette 1, the manipulations from Vignette 2 were summarized immediately before the measures. The explanation for this approach was given in the section concerning the manipulations used in Vignette 1.

#### 4.2.8 Action Measures Used for Vignette 2

The measures following Vignette 2 were used to assess the likelihood that the subject/customer would take action against the FO, in this case, Blu-Chip. The “list” of possible stakeholder actions in this scenario was developed in the same manner as the list of actions corresponding to Vignette 1, which is discussed in the section concerning the measures associated with that vignette. As with the actions associated with Vignette 1, where appropriate I stated the costs in time and/or money associated with the actions. The measures for Vignette 2 employ seven-point Likert scales anchored with “extremely unlikely” and “extremely likely.” The measures associated with Vignette 2 are reproduced in Table 4.4.

**4.2.8.1 Prosocial Action Measure for Vignette 2.** As noted earlier, I hypothesized that a stakeholder might engage in “helping” activities to in response to overreward in its relationship with the FO. As in Vignette 1, a single-item measure was employed to assess the subject/customer’s propensity to engage in such activities. For Vignette 2, I employed a situation where the subject/customer had the option of providing a positive testimonial about his interaction with Blu-Chip for use in an advertisement. The prosocial measure for Vignette 2 reads:

**In the above situation, what is the likelihood that you would...**

	Extremely Unlikely			Extremely Likely			
<b>5. Provide a <i>positive</i> testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would <i>not</i> be paid for your testimonial.)</b>	1	2	3	4	5	6	7

**Table 4.4: Action Measures Associated with Vignette 2**

*In the above situation, what is the likelihood that you would:*

	Extremely Unlikely			Extremely Likely			
	1	2	3	4	5	6	7
1. Buy more products from Blu-Chip?	1	2	3	4	5	6	7
2. Make a point of shopping at Blu-Chip in the future?	1	2	3	4	5	6	7
3. Advise others to shop at Blu-Chip?	1	2	3	4	5	6	7
4. Advise others <b>not</b> to shop at Blu-Chip?	1	2	3	4	5	6	7
5. Provide a <b>positive</b> testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would <b>not</b> be paid for your testimonial.)	1	2	3	4	5	6	7
6. Refuse to shop at Blu-Chip in the future?	1	2	3	4	5	6	7
7. Post negative information concerning Blu-Chip on the internet?	1	2	3	4	5	6	7
8. Make false negative statements condemning Blu-Chip on the internet?	1	2	3	4	5	6	7
9. Attempt to organize a boycott of Blu-Chip among your friends and associates? (This will take 3 hours of your time. There are no other costs associated with this action.)	1	2	3	4	5	6	7
10. Attempt to organize a boycott of Blu-Chip among the general public? (This will take 8 hours of your time. There are no other costs associated with this action.)	1	2	3	4	5	6	7
11. Participate in a boycott of Blu-Chip organized by others?	1	2	3	4	5	6	7
12. Steal or vandalize Blu-Chip property if you knew you wouldn't get caught?	1	2	3	4	5	6	7
13. Complain about Blu-Chip to the Better Business Bureau?	1	2	3	4	5	6	7
14. Take legal action against Blu-Chip? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)	1	2	3	4	5	6	7
15. Complain to Blu-Chip management (e.g., in person, or by phone, mail, or email)?	1	2	3	4	5	6	7
16. Sue Blu-Chip in small claims court? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)	1	2	3	4	5	6	7
17. Do nothing about the situation?	1	2	3	4	5	6	7

#### 4.2.9 Manipulation Checks for Vignette 2

As for Vignette 1, four manipulation checks were employed to ensure that the manipulations used in Vignette 2 were effective. The reasons for the manipulation checks were presented in the section concerning the manipulation checks for Vignette 1.

**4.2.9.1 Valence Check.** For Vignette 2, a single-item valence check was used to ensure that having a working computer was seen as a high-valence outcome by the subject/customer. The valence check read:

<b>18. <i>In the above situation</i>, how important is it for you to have a working computer? (1=not at all, 7=very important)</b>	1	2	3	4	5	6	7
--	---	---	---	---	---	---	---

As noted earlier, the operationalization of valence as “importance” is common in the literature concerning expectancy theory. The reasons why the perception of the outcome as high in valence is important were outlined in the section concerning the valence check for Vignette 1. Mean responses to this question were not expected to vary across conditions.

**4.2.9.2 Type of Inequity Manipulation Check.** For Vignette 2, the inequity type manipulation check was:

<b>21. <i>In the above situation</i>, do you feel under-rewarded or overrewarded when you compare yourself with Person C? <i>1=very under-rewarded, 7=very overrewarded</i></b>	1	2	3	4	5	6	7
---	---	---	---	---	---	---	---

This check was used to assess the extent to which subjects perceived underreward or overreward relative to Person C in their relationship with Blu-Chip. Subjects in the overreward condition were expected to evince a significantly higher mean than subjects in the underreward condition. A non-significant difference would indicate that my type of inequity manipulation check was inadequate.



**4.2.9.3 Expectancy Manipulation Check.** For Vignette 2, the expectancy manipulation check was:

	Extremely Unlikely				Extremely Likely		
	1	2	3	4	5	6	7
<b>19. <i>In the above situation</i>, what is the likelihood that taking action (e.g., complaining, organizing a boycott, etc.) in an attempt to get Blu-Chip to fix your computer at no cost would, in fact, result in Blu-Chip doing so?</b>							

The purpose of this check was to ensure that subjects did indeed perceive the likelihood that action taken against Blu-Chip would result in their desires being met to an extent appropriate for their experimental condition. Mean responses to this question were expected to differ across the two expectancy conditions. Specifically, those in the low expectancy condition were expected to manifest a mean response significantly lower than that of subject in the high expectancy condition. As with the type of inequity manipulation check, a non-significant difference would indicate that my manipulation was unsuccessful.

**4.2.9.4 Resource Dependence Manipulation Check.** For Vignette 2, the resource dependence manipulation check was:

	Extremely Unlikely				Extremely Likely		
	1	2	3	4	5	6	7
<b>20. <i>In the above situation</i>, what is the likelihood of you being able to obtain a replacement CPU from a retailer other than Blu-Chip?</b>							

This question was used to assess the extent to which the subject/customer perceived herself as dependent on Blu-Chip for a critical resource: a new CPU. Subjects in the low resource dependence condition were expected to evince a significantly lower mean than those in the high

resource dependence condition. Again, a non-significant difference would indicate an ineffective manipulation.

### 4.3 OTHER MEASURES

#### 4.3.1 Demographic Variables

Another set of questions asked for basic information about the subject. It was not expected that most of these variables would be included in my statistical tests. However, there is at least some evidence that responses to inequity can be moderated by gender (Reis & Jackson, 1981) and culture (Van Yperen & Buunk, 1991; Scheer et al., 2003) in some circumstances, so I considered it important to acquire data considering those variables. The questions concerning demographic variables are presented below.

1. What is your sex?     Female     Male
2. How old are you?  
 Under 18     18-19     20-22     23-25     26-30     over 30
3. In what country were you raised? If you were raised in more than one country, please name the country whose culture you identify with most. \_\_\_\_\_
4. If you are a student, what is your major and/or concentration? \_\_\_\_\_
5. With what race or ethnicity do you most identify? (Check only one.)  
 Asian     White/Caucasian     Black/African-American     Hispanic/Latino  
 Native American/First Nations     Other (Please specify) \_\_\_\_\_
6. How many years of part-time or full-time work experience do you have? \_\_\_\_\_
7. Are you a graduate student or an undergraduate student?  
 Undergraduate     Graduate     Not a student

### 4.3.2 Equity Sensitivity

Given recent work on equity theory and variations in individuals' sensitivities to it, I decided to measure equity sensitivity and use it as a covariate in my statistical tests. Using equity sensitivity in my model allowed me to acknowledge a large number of potential individual-level moderators of subjects' responses to inequity in a single measure, since the influence of such variables should manifest itself in subjects' responses to the equity sensitivity measure.

Subjects' equity sensitivity was measured using an adaptation of the Equity Sensitivity Index (ESI), which was developed by Huseman, Hatfield, and Miles (1985) to assess the differences in individuals' sensitivities to inequity. The ESI comprises five forced-distribution items. For each item, subjects distribute ten points between a "benevolent" response and an "entitled" response. Points given to benevolent responses are summed to give a total from 0-50.

The ESI was originally developed to assess equity sensitivity only in employee-employer relationships. Therefore, I adapted the instrument of Huseman et al. (1985) to make it more general and therefore more applicable to a wide variety of stakeholder-FO relationships. Whereas the original ESI only measured equity sensitivity in employees' relationships with their employers, the adapted instrument relates to equity sensitivity in individuals' relationships with other persons, or with groups or organizations. In general, I broadened the possible "comparison others" from the organization for which the subject is employed to any entity with which the subject has a relationship.

For example, the first sentence of the ESI reads, "The questions below ask what you'd like for your relationship to be with any organization for which you might work," while the first sentence of my adaptation of the ESI reads, "The questions below ask you about your preferences with respect to relationships that you have with other people, or with groups or

organizations (like businesses).” Similarly, the first item in the original ESI has subjects divide ten points between the two statements, “In any organization I might work for it would be more important for me to get from the organization,” and, “In any organization I might work for it would be more important for me to give to the organization,” while in my adaptation the two statements read, “In any relationship that I might have with another person, or with a group or an organization, it is more important for me to get from the relationship,” and, “In any relationship that I might have with another person, or with a group or organization, it is more important for me to give to the relationship. Both the original ESI and my adaptation of it are presented in Appendix C. The critical alterations of the instrument are highlighted in my adaptation of the ESI.

**4.3.2.1 Reliability and Validity of the ESI.** King and Miles (1994) assessed the reliability and validity of the ESI using samples of students, teachers, utility workers, bank workers, and volunteers. With regard to internal consistency reliability, Cronbach’s Alphas ranged from .79 to .88 across the five samples. Regarding convergent validity, the ESI exhibited the predicted correlations with exchange ideology, perceived distributive justice, altruism, social desirability, locus of control, Machiavellianism, and the non-Protestant work ethic. Mixed results were found when compared to pro-Protestant work ethic, and the expected relationship with input vs. outcome orientation was not found. Correlations indicated no consistent substantial overlap between ESI and demographic variables, self-esteem, satisfaction, organizational commitment, or turnover propensity, indicating discriminant validity. Factor analysis of each sample suggested that equity sensitivity is a unidimensional construct, further supporting construct validity. In another study, Miles, Hatfield, and Huseman (1989) found test-retest reliability of .80 for the ESI. While I did not undertake extensive attempts to validate my adaptation of the

ESI, it did evince acceptable levels of internal consistency reliability. Results of these reliability tests are reported in the section concerning my pilot studies.

**4.3.2.2 Use of the ESI.** As originally conceived, scoring of the ESI is sample-specific, with subjects  $-0.5$  standard deviations or further from the mean categorized as “entitleds”, while subjects  $+0.5$  SD or further from the mean categorized as “benevolents.” Subjects within  $\pm 0.5$  SD from the mean are ascribed to the “equity sensitive” category. The sample-specific scoring and trichotomous categorization of subjects has led to criticism of the ESI, particularly from Sauley and Bedeian (2000). In particular, sample-specific scoring means that an individual could be classified as a benevolent in one study, but an entitled in another. This contradicts the idea that equity sensitivity is a relatively stable trait. The trichotomous categorization of subjects implies that very similar subjects might be categorized differently, exaggerating the differences between them. In order to overcome these shortfalls associated with the instrument, I employed the technique of researchers such as Mueller & Clarke (1998) and O’Neill & Mone (1998), who used the ESI as a continuous measure.

## **4.4 SUBJECTS AND DATA COLLECTION**

### **4.4.1 Rationale for the Choice of Subjects**

All subjects (except those in my first pilot study) were undergraduate business administration students at various North American universities. There were a few reasons for this choice. The first reason was the relatively easy access I have to students. It was anticipated that I would have little difficulty recruiting subjects from classes taught by myself or my colleagues: furthermore, I believed that students would be more likely to be willing to undertake an instrument approximately twenty minutes in length than would other potential subjects. A second, related

reason was the large number of subjects necessary. Due to the fact that I employed eight different conditions, I required over two hundred subjects: students represent a relatively plentiful source of data. Lastly, because of the nature of the relationships depicted in the vignettes – employee-employer and customer-retailer – I thought students represented a valid source of data: the vast majority of subjects had some work experience, and so could relate to the employee-employer scenario. Likewise, all were consumers of some sort of products (and, it was expected, a great many had been consumers of computers or other electronic goods), so it was thought that they could also reasonably see themselves in a situation like that depicted in the customer-retailer vignette. Thus, the vignettes present relationships with which my student subjects would have had some experience, which reduces the extent to which the use of students represents a threat to the external validity of my study.

#### **4.4.2 A Note on Individuals as Stakeholders**

As noted earlier, the term “stakeholder” crosses levels: a stakeholder can be an individual, a group, or an organization. Thus, one might argue that by using individual students as stakeholders I was limiting the generalizability of my findings to other situations where the stakeholder is an individual. However, there are a few reasons (aside from the obvious reason that many stakeholders are, in fact, individuals) why the use of individuals as subjects was reasonable.

First, existing accounts of stakeholder action explicitly focus on well-defined stakeholder groups, while eschewing investigation of individual-level variables that influence stakeholder action. For example, the theory of Rowley and Moldoveanu (2003), as they note, is specific to groups or “collectives of individuals,” where individuals are conscious of their membership in the collective; thus, the major existing approach to understanding stakeholder action is focused

on collective action rather than the conditions that precipitate an individual being willing to take part in such action: in the end, though, any stakeholder group or organization engaging in action against a FO is made up of individuals who are motivated by individual-level variables to take part in a collective action. By looking at the motivations of individuals, I address the underlying reasons why an individual might take part in the action of a stakeholder group or organization while augmenting the work on stakeholder action by addressing it at the individual level.

As Cordano, Frieze, and Ellis (2004: 35) state, “research at the individual level of stakeholder behavior could fulfill critical needs addressed in some of the recent developments in stakeholder theory.” They assert that “One important element in developing a more complete stakeholder theory is an improved understanding of what motivates individuals to act on an emergent issue...” (Cordano et al., 2004: 27). They argue that understanding individual-level motivation would facilitate an understanding of stakeholder intentions and behaviors, and by gaining a better understanding of the effects of individuals’ attitudes on their behavioral intentions we can increase our understanding of stakeholder relations: even where the stakeholder is a group or organization that undertakes action as a collective, it is critical to understand how individuals become motivated to engage in these collective actions.

Cordano et al. (2004) suggest, therefore, that individual level variables can and should be used to investigate and predict stakeholder action. Key (1999), likewise, acknowledges the value of engaging in analysis of stakeholders and their interests at the individual level rather than focusing exclusively on “stakeholder groups.” My study, interpreted in the simplest way, is an account of individual level variables that influence stakeholders to take action against a FO, and so begins to fill the void in the literature identified by Cordano et al. (2004).

Furthermore, the decisions of many stakeholder groups or organizations are not the result of the inclinations of an entire collective; rather, they often stem from the opinions of one or a few key decisionmakers or authority figures. Frooman (2000) acknowledged this idea when he used individual leaders and “influencers” (members who interact with policy makers and other organizations) within organizations to represent stakeholder organizations in his study. Simply put, most people in a stakeholder group or organization will not be directly involved in the decision to take action against a FO; rather, it is the motivation of these key leaders and influencers to undertake action that is critical in determining a wide variety of the actions of these stakeholders. Thus, much action by stakeholder groups or organizations is best understood if it is reduced to the motivations of key individuals within those groups or organizations.

Finally, as noted earlier, some stakeholder researchers argue that definitions of stakeholder groups are socially constructed and/or subjective (McLarney, 2001; Winn, 2001), and that “generic” stakeholder groups are not, in fact, homogenous (Rowley & Moldoveanu, 2003): within a stakeholder group, there are differences among stakeholder types due to variations in culture, values, and a myriad of other individual-level variables that differ across key members of the group. Gibson (2000: 251) states, “...stakeholder names are just a convenient shorthand way of describing many particular individuals.” Thus, for example, it may not be appropriate to think of “customers” as a meaningful stakeholder group – a finer grained analysis may be necessary. If this is the case, it is reasonable to investigate members of these groups at the individual level rather than the group level, since individuals within the group might exhibit important differences in their attitudes or behaviors, or goals (Klandermans, 1984).



### **4.4.3 Data Collection**

Data were collected at five universities in Pittsburgh, Pennsylvania, Halifax, Nova Scotia, and Cedar Falls, Iowa. In addition to using my own students, I solicited other faculty members, including dissertation committee members, in order to use students from their classes as subjects. Potential subjects were asked by their instructor if they were willing to participate in an experiment. They were then read an informed consent document and a set of instructions concerning how to undertake the exercise. Each subject was administered an instrument corresponding to one of the eight experimental conditions. All administrations were pencil-and-paper tasks except for the second pilot study, in which instruments were emailed to subjects. In producing the physical documents to be used, the experimental conditions were printed sequentially. By doing this, the person administering the instrument could approximate random assignments of subjects to conditions by merely handing the instruments out one after the other.

## **4.5 PILOT STUDIES AND INSTRUMENT DEVELOPMENT**

In the process of developing my instrument, I undertook a number of pilot studies in order to ensure that it was comprehensible and made sense to subjects, and that my manipulations were effective. A few refinements to the instrument were made based on these pilot events.

### **4.5.1 Pilot 1**

For the first pilot, I administered a preliminary version of my instrument to seventeen MBA students in a predominantly women's college in Pittsburgh, Pennsylvania. The subjects were all students in a class that I was teaching at the time, and I administered the instrument to willing participants at the end of an evening class. The main goal of this pilot was to see if subjects could understand the instrument and found the vignettes to be reasonable: since the subjects were

all female (with the exception of one male subject), and responses to inequity may vary across gender, I was less concerned with these subjects' actual responses. Students indicated that the instrument was easy to understand and the vignettes made sense; however, in addition to correction of minor errors and minor rewording of the vignettes, some modifications were made based on their input.

First, it became clear that the relationship between the subject/customer and the comparison other in Vignette 2 was influencing subjects' perceptions of that situation. In this preliminary instrument, Person C was "a friend" of the subject/customer. The result of this situation was that some respondents were irritated by Blu-Chip's behavior irrespective of the type of inequity condition. As noted in Chapter 3, one stakeholder's interests may be an important outcome in *another* stakeholder's perception of equity/inequity in his relationship with the FO. In the case of Vignette 2, it appeared that because Person C was a friend, subjects were incorporating Blu-Chip's treatment of him into their own equity calculations: something like "good treatment of my friends" was seen as a relevant outcome in the subject's relationship with Blu-Chip, so, in the overreward condition, where Blu-Chip does not satisfy Person C's wishes, the underreward of this friend partially offset the positive effects of the overreward experienced by the subject/customer.

To address this problem, I downplayed the relationship between the subject/customer and Person C in Vignette 2. Rather than having Person C be a friend of the subject/customer, I stated, "You are not associated with Person C in any way except that you both have recently been hired to do some consulting work for a local business." It was hoped that this would reduce the extent to which Person C's treatment by Blu-Chip was incorporated into subjects' perceptions of equity/inequity in their own relationships with Blu-Chip.

A second modification was the alteration of the wages earned by the subject/employee and Person B in Vignette 1. For this pilot, the wages were \$7.00/hr. and \$10.00/hr. as opposed to \$9.00/hr. and \$15.00/hr. It appeared that some subjects felt underrewarded irrespective of the type of inequity condition; that is, those subjects earning \$10.00/hr. felt underrewarded even though that wage was associated with the subject/employee in the overreward condition. I expected that this was due, at least in part, to the fact that I was using MBA students as opposed to undergraduates for this pilot: \$10.00/hr. is likely to be an unsatisfying wage to many MBA students; however, in response to this concern, I raised the wages of all parties in all conditions of Vignette 1. I also increased the difference between the wages in order to exaggerate inequity perceptions, though I attempted to apply reasonable limits to the wage differential.

#### **4.5.2 Pilot 2**

For the second pilot, I administered the revised instrument to five undergraduate business administration students from a second university in Pittsburgh, Pennsylvania (in one case, the subject had recently graduated). These subjects were former students of mine: I contacted them by email and asked if they would do me a favor by filling out a questionnaire that I was using in my dissertation. After eliciting their agreement, I emailed each a copy of the instrument in Microsoft Word format. Each of these subjects was subjected to two experimental conditions. They indicated their responses by highlighting them in the Word document (or, in the case of the equity sensitivity measure, typing the appropriate numbers into the document). Subjects then emailed the document back to me upon completion.

My major goals with this administration were to assess the adequacy of the vignettes and how they and the questions associated with them were worded, to assess the adequacy of the sets of potential stakeholder actions identified in the instrument, and to get a general impression of

how members of the population from which I was going to derive my final subjects responded to it. Accordingly, after receiving their responses to the instrument, I contacted each subject by telephone, asked for their general impressions, and went over their responses with them one at a time while asking questions about the reasoning behind them. These subjects indicated that the vignettes made sense and the stakeholder actions identified represented a fairly exhaustive list of what they perceived as reasonable actions in the situations presented. This pilot led to no major changes, though I did correct some minor errors and alter the wording of a number of questions in accordance with subjects' suggestions.

### **4.5.3 Pilot 3**

For the third pilot, the twice revised instrument was administered to forty-six undergraduate Business Administration students at a third university in Pittsburgh, Pennsylvania. This administration was done through a colleague, who printed out copies of the instrument and administered it to two classes he taught at the university. Completed instruments were mailed to me in Halifax, Nova Scotia. This pilot allowed me to see how subjects responded to a "final" instrument and to verify statistically that the manipulations employed in my vignettes induced perceptions appropriate to the various conditions in my experiment. All data from this pilot was entered into a data file in SPSS for Windows. I used t-tests to test the experimental manipulations: statistical tests were run using SPSS. No changes to the instrument were made based on this pilot. I report on the manipulation checks and the reliability of my adaptation of the ESI below.

**4.5.3.1 Type of Inequity Manipulation.** Results of the t-tests for "type of inequity" are summarized in Table 4.5. The t-test for the type of inequity manipulation checks associated with both vignettes indicated that, as desired, there were significant differences between subjects in

the underreward condition and those in the overreward condition in terms of their responses to the manipulation check question.

**Table 4.5: Pilot Study Manipulation Check for Type of Inequity**

	<b>Condition</b>	<b>n</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Underreward	25	2.04	.790	.000
	Overreward	21	5.10	1.411	
<b>Vignette 2: Customer-Retailer</b>	Underreward	24	1.38	.647	.000
	Overreward	21	5.19	1.289	

**4.5.3.2 Expectancy Manipulation.** Results of the t-test for “expectancy” are summarized in Table 4.6. The t-tests for the expectancy manipulation checks associated with both vignettes indicated that, as expected, there were significant differences between subjects in the high expectancy condition and those in the low expectancy condition in terms of their responses to the manipulation check question.

**Table 4.6: Pilot Study Manipulation Check for Expectancy**

	<b>Expectancy Condition</b>	<b>n</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Low	23	2.57	1.199	.001
	High	23	4.13	1.604	
<b>Vignette 2: Customer-Retailer</b>	Low	23	2.78	1.757	.000
	High	22	4.95	1.430	

**4.5.3.3 Resource Dependence Manipulation.** Results of the t-test for “resource dependence” are summarized in Table 4.7.

**Table 4.7: Pilot Study Manipulation Check for Resource Dependence**

	<b>Resource Dependence Condition</b>	<b>n</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Low	24	4.83	1.880	.018
	High	22	3.55	1.654	
<b>Vignette 2: Customer-Retailer</b>	Low	23	5.78	1.445	.000
	High	22	2.91	1.770	

The t-tests for the resource dependence manipulation checks associated with both vignettes indicated that, as desired, there were significant differences between subjects in the high resource dependence condition and those in the low resource dependence condition in terms of their responses to the manipulation check question.

#### **4.5.4 Reliability of ESI Adaptation**

Since I made some adaptations to the ESI, I used pilot data to compute the internal consistency reliability of my version of it. Each set of two items was treated as a bipolar adjective scale. Accordingly, I assessed internal consistency by calculating Cronbach’s Alpha for the benevolent items. Alpha was .78, which indicates satisfactory internal consistency reliability (Nunnally, 1978). Item-to-total correlations ranged from .47 to .61, and Alpha would have been reduced if any item were removed from the scale. A factor analysis was run to confirm the unidimensionality of the scale. This analysis led to the extraction of only one factor, indicating that the scale is indeed unidimensional. Overall, the adapted ESI seems to be adequate in terms of internal consistency reliability.

#### **4.6 CHAPTER SUMMARY**

In this chapter I presented the hypotheses to be tested in my study, and described the study, including the instrument, the manipulations and measures to be employed, and the results of pilot projects. In the next chapter, I report on the results of my tests of the hypotheses.

## 5.0 RESULTS

In this chapter I present the results of my various statistical analyses. I begin with checks on my experimental manipulations. I then describe factor analyses conducted to identify the factors underlying the various stakeholder actions associated with each vignette. Finally, the results of tests of each hypothesis are presented, one hypothesis at a time.

### 5.1 MANIPULATION CHECKS FOR FINAL DATA

In order to assess the efficacy of the experimental manipulations associated with my final data collection, I used t-tests to identify differences in the mean responses of subjects across the various experimental conditions. Results of these manipulation checks are presented in the following sections.

#### 5.1.1 Type of Inequity Manipulation Check

Results of the t-tests for the “type of inequity” manipulations are summarized in Table 5.1. For the employer-employee vignette, the question associated with the type of inequity manipulation check was, “*In the above situation*, do you feel under-rewarded or overrewarded compared to Person B?” For the customer-retailer vignette, the question was “*In the above situation*, do you feel under-rewarded or overrewarded compared to Person C?” The t-tests associated with both the employee-employer and the customer-retailer vignettes indicated that there were significant differences between subjects in the underreward condition and those in the overreward condition in terms of their responses to the type of inequity manipulation check questions. The mean



response for those in the employer-employee overreward conditions was significantly different from that of subjects in the underreward conditions ( $t = -33.66$ ;  $p = .000$ ). Similarly, in the customer-retailer vignette, there was a significant difference across type of inequity conditions ( $t = -40.98$ ;  $p = .000$ ). These results suggest that the manipulation for type of inequity was successful.

**Table 5.1: Manipulation Check for Type of Inequity**

	Condition	N	Mean	Std. Deviation	t	p
<b>Vignette 1: Employee-Employer</b>	Underreward	189	1.97	0.841	-33.66	.000
	Overreward	184	5.38	1.100		
<b>Vignette 2: Customer-Retailer</b>	Underreward	188	1.45	0.783	-40.98	.000
	Overreward	184	5.69	1.177		

### 5.1.2 Expectancy Manipulation Check

Results of the t-tests for the “expectancy” manipulation checks are summarized in Table 5.2. For the employee-employer vignette, the expectancy manipulation check read, “*In the above situation*, what is the likelihood that taking action in an attempt to bring about a pay increase where you currently work will, in fact, result in a pay increase?” For the customer-retailer vignette, the expectancy manipulation check read, “*In the above situation*, what is the likelihood that taking action (e.g., complaining, organizing a boycott, etc.) in an attempt to get Blu-Chip to fix your computer at no cost would, in fact, result in Blu-Chip doing so?” As expected, there were significant differences across expectancy conditions. For the employee-employer vignette there was a significant difference between the mean responses of those in the low expectancy condition and those in the high expectancy condition ( $t=-7.952$ ;  $p = .000$ ). Likewise, in the

customer-retailer vignette, there was a significant difference between the mean response of subjects in the low expectancy condition and that of subjects in the high expectancy condition ( $t = -9.503$ ;  $p = .000$ ). These results suggest that the expectancy manipulation was successful.

**Table 5.2: Manipulation Check for Expectancy**

	<b>Expectancy Condition</b>	<b>n</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>t</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Low	189	2.87	1.432	-33.66	.000
	High	182	4.13	1.626		
<b>Vignette 2: Customer-Retailer</b>	Low	189	3.32	1.803	-40.98	.000
	High	182	4.95	1.473		

### 5.1.3 Resource Dependence Manipulation Check

Results of the t-test for the “resource dependence” manipulation checks are summarized in Table 5.3. The t-tests indicated that there were significant differences between subjects in the high resource dependence condition and those in the low resource dependence condition in terms of their responses to the manipulation check questions associated with both vignettes. For the employee-employer vignette, the question read, “*In the above situation*, if you tried to, what would be the likelihood of you finding a different job that pays as much as your current job at *the Center?*” There was a significant difference between the mean of the high resource dependence subjects and that of the low resource dependence subjects ( $t = 9.171$ ;  $p = .000$ ). Similarly, for the customer-employee vignette, the manipulation check question, which read, “*In the above situation*, what is the likelihood of you being able to obtain a replacement CPU from a retailer other than Blu-Chip?” elicited significantly different means between the low high resource

dependence conditions and the low resource dependence conditions ( $t = 17.217$ ;  $p = .000$ ). Thus, it appears that the resource dependence manipulation was successful.

**Table 5.3: Manipulation Check for Resource Dependence**

	<b>Resource Dependence Condition</b>	<b>n</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>t</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Low	196	4.70	1.758	9.171	.000
	High	177	3.11	1.573		
<b>Vignette 2: Customer-Retailer</b>	Low	196	5.42	1.623	17.217	.000
	High	176	2.49	1.649		

#### 5.1.4 Assessment of Outcome Valence

As noted in Chapter 3, my framework for stakeholder action is based on the assumption that a high valence outcome is at stake. An outcome of very low valence will lead to a low “motivational force” score in expectancy theory, and will have little impact on the outcome/input ratios in equity theory (and so will have very little impact on perceptions of equity); therefore, a very low valence outcome will have little impact on motivation and behavior. For this reason, I assessed the valences of the outcomes associated with the two vignettes to ensure that they were high. The valence check item for the employee-employer vignette read, “In the above situation, how important to you is your hourly wage?” The mean response to this item was 6.08, (with a standard deviation of 1.03). While this mean was lower than expected, it did appear to indicate that hourly wage was indeed seen by subjects as a high-valence outcome. For the customer-retailer vignette, the valence check item read, “In the above situation, how important is it for you to have a working computer?” The mean response to this question was 6.85 (with a standard

deviation of .38). I took this result as a clear indication that having a working computer was also seen by subjects as a high valence outcome.

## **5.2 FACTOR ANALYSES OF STAKEHOLDER ACTION ITEMS**

Because there were seventeen “stakeholder action” items associated with each of the two vignettes, the items associated with each were subjected to principal components factor analysis before further statistical analyses were carried out. This allowed me to assess whether the various action measures associated with each of the two vignettes “hung together” in ways which would allow me to reduce the number of independent variables to be assessed. Due to a problem in data collection (the item in the overreward condition was different for the subjects in Iowa from how it was for all other subjects), the item reading “Accept the idea that your work at the Center is worth \$15.00 per hour” (which read, “Accept the idea that your work at the Center is worth \$9.00 per hour” for the Iowa subjects) and the corresponding question for the underreward condition were not included in the factor analysis for the employee-employer vignette. All factor analyses were undertaken using Varimax rotation to facilitate interpretation of the results. Factors with eigenvalues higher than one were extracted. The items associated with each factor were then subjected to reliability analyses to determine their internal consistencies. The results of these factor analyses and the associated reliability analyses are summarized in the following sections.

### **5.2.1 Factor Analysis for Employee-Employer Vignette**

The factor analysis for the employee-employer vignette is summarized in Table 5.4. Four factors were identified in this factor analysis, all of which exhibited internal consistency reliability (as measured by Cronbach’s Alpha) above the acceptable limit of 0.6 suggested by Hair et al.

(1995). The first factor included the actions “complain to your supervisor at the Center in an attempt to get a pay raise for yourself and other employees at the Center,” “complain to administrators at the Student Employee Office in an attempt to get a pay raise for yourself and other employees at the Center,” “do nothing about the situation” (which was reverse-scored), “start trying to find another job,” and “advise others to seek employment at the Center.” This factor was named “voice/job-related action,” because its constituent items generally concerned complaining and employment-related actions. The subsequent reliability analysis indicated that the Cronbach’s Alpha associated with this factor was .812.

The second factor included the actions “attempt to organize a strike by student employees at the Center,” “participate in a strike organized by other student employees at the Center,” “attempt to organize a union drive by employees at the Center,” and “vote in favor of joining an existing union of student employees.” This factor was labeled “Job Action,” as the items it included all concerned collective action by employees. The Cronbach’s Alpha for this factor was .774.

The third factor included the items “purposely commit coding errors in your work at the Center,” “quit your job at the Center,” “call in sick to the Center the next time you want a day off,” and “try to reduce your workload at the center (while working the same number of hours).” The Cronbach’s Alpha for this factor, which was named “shirking/sabotage” due to its items’ focus on avoiding work or purposely compromising the quality of work, was .635.

Finally, the fourth factor included, “put more effort into your work at the Center,” “put less effort into your work at the Center,” and “work extended hours at the Center one day next week, as your supervisor has asked.” This factor, which I labeled “manipulation of effort”

because its constituent items concerned alterations of effort, exhibited a Cronbach's Alpha of .620.

**Table 5.4: Factor Analysis for Employee-Employer Vignette**

<b>Variable</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>
	<b>Voice/Job-related</b>	<b>Job Action</b>	<b>Sabotage/Shirking</b>	<b>Manipulation Of Effort</b>
Complain to administrators at the Student Employee Office	.821			
Complain to your supervisor	.806			
Do nothing	-.786			
Start looking for another job	.638			
Advise others to seek employment at the Center	.518			
Participate in a strike		.794		
Vote in favor of joining an existing union		.763		
Attempt to organize a union drive		.751		
Attempt to organize a strike		.701		
Purposely commit coding errors			.714	
Quit your job			.706	
Call in sick the next time you want a day off			.552	
Try to reduce your workload			.546	
Put more effort into your work				.814
Put less effort into your work				-.663
Agree to work extended hours				.618
<b>% of Variance Explained</b>	<b>18.11</b>	<b>15.63</b>	<b>12.88</b>	<b>12.45</b>
<b>Cronbach's Alpha</b>	<b>.812</b>	<b>.774</b>	<b>.635</b>	<b>.620</b>

### 5.2.2 Factor Analysis for Customer-Retailer Vignette

The factor analysis for the customer-employer vignette is summarized in Table 5.5. This factor analysis resulted in the extraction of three factors. Two items loaded almost equally on more than one factor: the item “do nothing” had loadings of .510 and .540 on Factors 1 and 2 respectively, while the item “post negative information concerning Blu-Chip on the internet” had

loadings of .402, .499, and .440 on Factors 1, 2 and 3 respectively. Therefore these two items were excluded from further analyses.

The first factor included the items “advise others to shop at Blu-Chip,” “make a point of shopping at Blu-Chip in the future,” “buy more products from Blu-Chip,” and “provide a positive testimonial about your experience at Blu-Chip” (all of which were reverse-scored), as well as “advise others not to shop at Blu-Chip,” “refuse to shop at Blu-Chip in the future,” and “complain to Blu-Chip management.” This item was labeled “shopping-related” action, since most of its constituent items concerned actions that influenced shopping habits. The resulting Cronbach’s Alpha for this factor was .929.

The second factor included the items “attempt to organize a boycott of Blu-Chip among the general public,” “attempt to organize a boycott among your friends and associates,” “take legal action against Blu-Chip,” “sue Blu-Chip in small claims court,” “participate in a boycott of Blu-Chip organized by others,” and “complain about Blu-Chip to the Better Business Bureau.” This factor was named “external” action because most of the items required involving other constituents in order to influence Blu-Chip. The Cronbach’s Alpha for this factor was .905.

The third factor included the items “make false negative statements condemning Blu-Chip on the internet” and “steal or vandalize Blu-Chip property if you knew you wouldn’t get caught.” This factor was named “unethical retribution” because both items involved engaging in morally questionable actions to “get back” at Blu-Chip. Unfortunately, the reliability analysis for this factor produced a Cronbach’s Alpha of only .448, substantially below the recommended reliability threshold. However, with only two items, a low level of reliability is not unexpected. Though I retained this factor out of interest, one must be cautious about drawing any conclusions

from analyses concerning this factor. In particular, low reliability will produce a variable with less power, so tests of significance involving this factor will be conservative.

**Table 5.5: Factor Analysis for Customer-Retailer Vignette**

<b>Variable</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>
	<b>Shopping-related</b>	<b>External</b>	<b>Unethical Retribution</b>
Advise others to shop at Blu-Chip	-.892		
Make a point of shopping at Blu-Chip	-.887		
Buy more products from Blu-Chip	-.853		
Advise others not to shop at Blu-Chip	.820		
Provide a positive testimonial	-.714		
Refuse to shop at Blu-Chip	.666		
Complain to Blu-Chip management	.666		
Organize a boycott among public		.800	
Organize a boycott among friends		.798	
Take legal action against Blu-Chip		.787	
Sue Blu-Chip in small claims court		.766	
Participate in a boycott		.739	
Complain to the Better Business Bureau		.671	
Lie about Blu-Chip on web			.788
Steal or vandalize Blu-Chip property			.719
<b>% of Variance Explained</b>	<b>32.26</b>	<b>27.56</b>	<b>9.26</b>
<b>Cronbach's Alpha</b>	<b>.931</b>	<b>.905</b>	<b>.448</b>

### 5.3 TESTS OF HYPOTHESES

Several of my hypotheses were tested using multivariate analysis of covariance (MANCOVA). Johnson (1998) suggests that using MANCOVA to test for differences between various group means is preferable to using a separate ANCOVA for each dependent variable, as the latter method does not sufficiently protect against Type I errors: as the researcher tests more and more variables, the likelihood that one of the variables will exhibit statistical significance approaches one. Accordingly, Johnson (1998) submits that multivariate analyses should be performed whenever two or more different groups are being compared to one another on a large number of



independent variables. Other hypotheses were tested using dummy variable regression. The following sections summarize the results of the statistical tests of my various hypotheses.

### 5.3.1 Test of Hypothesis 1

H1: A stakeholder’s propensity to act against a FO is positively related to the degree to which it perceives underreward inequity in its relationship with that organization.

Hypothesis 1 was tested in a MANCOVA that included all factors as dependent variables, with the type of inequity, expectancy, and resource dependence conditions as independent variables, and equity sensitivity included as a covariate. Overall results of the MANCOVA indicated that each of the stakeholder action factors was predicted by type of inequity condition, expectancy condition, resource dependence condition, and equity sensitivity, taken together. The results of this overall analysis are presented in Table 5.6.

**Table 5.6: Results of Overall MANCOVA**

<b>Vignette</b>	<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Employee- Employer	Factor 1 Voice/Job-related	34.43	8	4.309	10.75	.000
	Factor 2 Job Action	33.02	8	4.128	2.75	.006
	Factor 3 Sabotage/Shirking	57.47	8	7.184	8.248	.000
	Factor 4 Manipulation of Effort	18.18	8	2.273	3.139	.002
Customer- Retailer	Factor 1 Shopping-related	6.272	8	.784	2.977	.003
	Factor 2 External	263.90	8	32.988	20.06	.000
	Factor 3 Unethical Retribution	30.20	8	3.775	3.34	.001

The MANCOVA results pertaining to Hypothesis 1 are summarized in Table 5.7 and Table 5.8. For the employer-employee vignette, the factor “voice/job related” action, was significantly related to the type of inequity condition ( $F = 77.91$ ;  $p = .000$ ), as were “job action” ( $F = 10.57$ ;  $p =$

.001), “sabotage/shirking” ( $F = 56.32$ ;  $p = .000$ ), and “manipulation of effort” ( $F = 17.42$ ;  $p = .000$ ). Thus, for the employee-employer vignette, all stakeholder action factors were significantly related to the equity condition. These results represent strong support for H1.

**Table 5.7: MANCOVA Results for Type of Inequity – Employee-Employer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Voice/Job-related	31.25	1	31.25	77.91	.000
Factor 2 Job Action	15.88	1	15.88	10.57	.001
Factor 3 Sabotage/Shirking	49.05	1	49.05	56.32	.000
Factor 4 Manipulation of Effort	12.61	1	12.61	17.42	.000

Likewise, all of the stakeholder action factors associated with the customer-retailer vignette – “shopping-related” action ( $F = 7.181$ ;  $p = .008$ ), “external” action ( $F = 152.94$ ;  $p = .000$ ), and “unethical retribution” ( $F = 17.21$ ;  $p = .000$ ) – were significantly related to type of inequity. These results, too, provide strong support for H1.

**Table 5.8: MANCOVA Results for Type of Inequity – Customer-Retailer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Shopping-related	1.891	1	1.891	7.181	.008
Factor 2 External	251.49	1	251.49	152.94	.000
Factor 3 Unethical Retribution	19.48	1	19.48	17.21	.000

### 5.3.2 Test of Hypothesis 2

H2: A stakeholder's propensity to act against a FO is positively related to its expectancy that it can successfully undertake the proposed action and the action is likely to substantially promote attainment of some valued outcome.

Hypothesis 2 was also tested in the overall MANCOVA that included all factors as dependent variables, with the equity, expectancy, and resource dependence conditions as independent variables, and equity sensitivity included as a covariate. The results concerning H2 associated with the employee-employer vignette are presented in Table 5.9.

**Table 5.9: MANCOVA Results for Expectancy – Employee-Employer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Voice/Job-related	.088	1	.088	.220	.640
Factor 2 Job Action	1.184	1	1.184	.788	.375
Factor 3 Sabotage/Shirking	.132	1	.132	.152	.697
Factor 4 Manipulation of Effort	.906	1	.906	1.251	.264

Results indicated that, for this vignette, expectancy condition was not significantly related to any of the action factors.

The results pertaining to the customer-retailer vignette are presented in Table 5.10. For this vignette, expectancy condition was only found to be marginally significantly related to the “external” action factor ( $F = 3.632$ ;  $p = .058$ ). Expectancy condition was not significantly related to the other two stakeholder action factors. Taken together, these results provide only very limited support for Hypothesis 2.

**Table 5.10: MANCOVA Results for Expectancy – Customer-Retailer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Shopping-related	.258	1	.258	.978	.323
Factor 2 External	5.973	1	5.973	3.632	.058
Factor 3 Unethical Retribution	.620	1	.620	.548	.460

While the t-tests concerning the manipulation check for expectancy indicated that there was a significant difference between the low and high expectancy conditions with respect to subjects' perceptions of expectancy, I speculated that the general lack of significant relationships between expectancy condition and the various stakeholder action factors, in contrast to the overwhelmingly significant relationships between type of inequity and the various action factors, might be due to the fact that the manipulation of type of inequity seemed to produce a greater contrast across conditions than did the manipulation of expectancy. Accordingly, I conducted a supplementary analysis in which, rather than assuming the success of the experimental manipulation of expectancy, I used the expectancy manipulation check questions as measures of subjects' perceptions of expectancy.

The expectancy manipulation check for the employee-employer vignette read, "In the above situation, what is the likelihood that taking action in an attempt to bring about a pay increase where you currently work will, in fact, result in a pay increase," while the expectancy manipulation check for the customer-retailer vignette read, "In the above situation, what is the likelihood that taking action (e.g., complaining, organizing a boycott, etc.) in an attempt to get Blu-Chip to fix your computer at no cost would, in fact result in Blu-Chip doing so." I used median splits to divide respondents into "high" and "low" expectancy groups for each vignette based on their responses to these questions, and employed MANCOVA to assess the difference

between these groups with respect to their means on the stakeholder action factor indices. The results of these analyses are presented in Tables 5.11 and 5.12.

**Table 5.11: Results of Test of Hypothesis 2 Using Median Splits of Manipulation Checks:  
Employee-Employer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Voice/Job-related	2.569	1	2.569	6.623	.011
Factor 2 Job Action	11.851	1	11.851	8.263	.005
Factor 3 Sabotage/Shirking	.574	1	.574	.660	.418
Factor 4 Manipulation of Effort	.002	1	.002	.003	.956

The results using median splits of the expectancy manipulation check question to divide subjects into high and low expectancy groups were somewhat more supportive of H2 than those of the analysis relying on the expectancy manipulation. Using this approach to differentiate between subjects in terms of perceptions of expectancy, for the employee-employer vignette, the “voice/job-related” action factor ( $F = 6.623$ ;  $p = .011$ ) and the “job action” factor ( $F = 8.263$ ;  $p = .005$ ) exhibited significant relationships with expectancy, while the “sabotage/shirking” factor ( $F = .660$ ;  $p = .418$ ) and the “manipulation of effort” factor ( $F = .003$ ;  $p = .956$ ) did not. For the customer-retailer vignette, the “shopping-related” action ( $F = 7.913$ ;  $p = .005$ ) and “external” action ( $F = 22.985$ ;  $p = .000$ ) factors were significantly related to expectancy, while the “unethical retaliation” factor ( $F = .167$ ;  $p = .683$ ) was not.

Thus, the results of the analysis using a median split on the expectancy manipulation check question provide some support for H2. However, the validity of these results is compromised

somewhat by both the use of a single-item expectancy measure and the use of median splits to separate subjects into “high” and “low” expectancy groups.

**Table 5.12: Results of Test of Hypothesis 2 Using Median Splits of Manipulation Checks: Customer-Retailer Vignette**

<b>Dependent Variable</b>	<b>SS</b>	<b>d.f.</b>	<b>MS</b>	<b>F</b>	<b>p</b>
Factor 1 Shopping-related	1.936	1	1.936	7.913	.005
Factor 2 External	36.958	1	36.958	22.985	.000
Factor 3 Unethical Retaliation	.213	1	.213	.167	.683

### 5.3.3 Test of Hypothesis 3

H3: A stakeholder’s propensity to engage in prosocial activities with respect to the FO is positively related to the degree to which it perceives overreward inequity in its relationship with that organization.

Hypothesis 3 was tested by comparing the average responses regarding prosocial action items across type of inequity conditions. Results are summarized in Table 5.13. This hypothesis was initially tested using dummy variable regression of single-item prosocial measures associated with each of the two vignettes on the type of inequity condition, with equity sensitivity included in the regressions to control for its influence. However, it was noted that, for both vignettes, other items could also be seen as representing prosocial behaviors by the stakeholder. Accordingly, these items were combined into scales representing prosocial action by the stakeholder (one scale corresponding to each vignette), and these scales were also regressed (in separate regressions) on type of inequity and the equity sensitivity variable.

For the employee-employer vignette, the single item read “what is the likelihood that you will agree to work extended hours at the Center one day next week, as your supervisors have

asked?” The regression indicated that type of inequity had a significant effect on responses to this question. The overall regression was significant ( $F = 43.67$ ;  $p = .000$ ), with an  $R^2$  of .21. The regression coefficient for type of inequity was also significant ( $t = 8.69$ ;  $p = .000$ ) indicating that type of inequity had a significant effect on this single-item measure of prosocial action. This result supports H3.

The prosocial action scale for this vignette included the aforementioned single item as well as two other items, “what is the likelihood that you would put more effort into your work at the Center” and “what is the likelihood that you would advise others to seek employment at the Center.” Reliability analysis indicated that the Cronbach’s Alpha for this scale was .63. This scale was regressed on type of inequity and equity sensitivity. The overall model exhibited significance ( $F = 77.85$ ;  $p = .000$ ), with an  $R^2$  of .32. Type of inequity was found to be a significant predictor of prosocial action as measured by the three-item scale ( $t = 12.13$ ;  $p = .000$ ), supporting H3.

**Table 5.13: Results of Regressions Testing Hypothesis 3**

	<b>Prosocial Measure</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
<b>Vignette 1: Employee-Employer</b>	Single-item	.426	8.69	.000
	Multiple-item	.551	12.13	.000
<b>Vignette 2: Customer-Retailer</b>	Single-item	.508	10.69	.000
	Multiple-item	.652	15.58	.000

For the customer-retailer vignette, the single item prosocial action measure read, “what is the likelihood that you would provide a *positive* testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would *not* be paid for your testimonial).”

Regression indicated that type of inequity also had a significant effect on responses to this question. The overall regression was significant ( $F = 58.05$ ;  $p = .000$ ), with an  $R^2$  of .26. The regression coefficient for type of inequity was also significant ( $t = 10.69$ ;  $p = .000$ ) indicating that type of inequity had a significant effect on this single-item measure. This result also supports H3.

The prosocial action scale for the customer-retailer vignette included the aforementioned single item and two additional items, “what is the likelihood that you would make a point of shopping at Blu-Chip in the future” and “what is the likelihood that you would advise others to shop at Blu-Chip.” Reliability analysis indicated that the Cronbach’s Alpha for this scale was .87. This scale was regressed on type of inequity and equity sensitivity. Again, the overall model exhibited significance ( $F = 122.14$ ;  $p = .000$ ), with an  $R^2$  of .42. Type of inequity was found to be a significant predictor of prosocial action as measured by the three-item scale ( $t = 15.58$ ;  $p = .000$ ), providing further support for H3.

#### **5.3.4 Test of Hypothesis 4**

H4: The propensity of an underrewarded stakeholder to terminate its relationship with the FO will be negatively related to the degree of resource dependence the stakeholder exhibits with respect to the FO.

Hypothesis 4 was tested using data from the underreward condition only in dummy variable regressions. For each vignette, there was a single action item representing termination, or “severance,” of the stakeholder-FO relationship. This item was regressed on resource dependence condition. Equity sensitivity and expectancy condition were included in the regressions to control for their effects.

For the employee-employer vignette, the single item representing severance read, “what is the likelihood that you would quit your job at the Center?” For the under-reward condition,



when this item was regressed on resource dependence condition, expectancy condition, and equity sensitivity, the overall model exhibited significance ( $F = 6.631$ ;  $p = .000$ ) with an  $R^2$  of .09. Resource dependence condition was found to be a significant predictor of responses to this item ( $t = -4.431$ ;  $p = .000$ ). This result supports H4.

For the customer-retailer vignette, the single item representing relationship severance read, “what is the likelihood that you would refuse to shop at Blu-Chip in the future?” When this item was regressed on resource dependence condition, expectancy condition, and equity sensitivity, the overall model did not exhibit significance ( $F = .958$ ;  $p = .414$ ), indicating that these three variables, taken together, did not predict responses to the severance item. This result does not support H4.

### **5.3.5 Test of Hypothesis 5**

H5: The propensity of an overrewarded stakeholder to act against the FO is positively related to its tolerance for overreward.

Hypothesis 5 was tested using the data for subjects in the overreward condition in several separate regressions, one associated with each stakeholder action factor. In each, equity sensitivity was included as the independent variable, while expectancy condition and resource dependence condition were included as control variables. Stakeholder action factors were included as dependent variables. The results of these analyses are summarized in Table 5.14 and Table 5.15. Results provide only limited support for H5.

**Table 5.14: Results of Regressions Testing Hypothesis 5 – Employee-Employer Vignette**

<b>Dependent Variable</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Factor 1 Voice/Job-related	.050	.634	.527
Factor 2 Job Action	.187	2.417	.017
Factor 3 Sabotage/Shirking	.028	.360	.719
Factor 4 Manipulation of Effort	.044	.561	.575

Regarding the employee-employer vignette, for the regressions regarding the factors “voice/job-related” actions ( $F = .628$ ;  $p = .598$ ), “sabotage/shirking” ( $F = .511$ ;  $p = .675$ ), and “manipulation of effort” ( $F = .476$ ;  $p = .707$ ), the overall regressions were non-significant. Only for the “job action” factor did the overall regression exhibit significance ( $F = 2.630$ ;  $p = .052$ ;  $R^2 = .03$ ). The regression coefficient for equity sensitivity was significant ( $t = 2.417$ ;  $p = .017$ ), indicating that equity sensitivity was a significant predictor of the job action factor. However, taken together, results associated with the employee-employer vignette provide only very modest support for H5.

**Table 5.15: Results of Regressions Testing Hypothesis 5 – Customer-Retailer Vignette**

<b>Dependent Variable</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Factor 1 Shopping-related	2.464	2.625	.008
Factor 2 External	7.285	2.507	.014
Factor 3 Unethical Retribution	.068	-.308	.742

With respect to the factors associated with the customer-retailer vignette, two factors exhibited significant relationships with equity sensitivity, providing some additional support for H5. For the first factor, “shopping-related” action, the overall regression was significant ( $F =$

3.655;  $p = .014$ ;  $R^2 = .047$ ), as was the regression coefficient for equity sensitivity ( $t = 2.625$ ;  $p = .010$ ), indicating that equity sensitivity was significantly related to this stakeholder action factor. For the second factor, “external” action, the overall regression was also significant ( $F = 3.208$ ;  $p = .025$ ;  $R^2 = .039$ ), and the regression coefficient for equity sensitivity again exhibited significance ( $t = 2.507$ ;  $p = .013$ ), indicating that equity sensitivity was also significantly related to this stakeholder action factor. The third factor, “unethical retribution” was not significantly related to equity sensitivity ( $F = .341$ ;  $p = .796$ ); however, as noted earlier, the low reliability of this factor suggests that one must use caution in interpreting this result. Overall, results concerning H5 were mixed, and only partially support the hypothesis.

### **5.3.6 Test of Hypothesis 6**

H6: The propensity of a stakeholder to exhibit prosocial behaviors with respect to the FO is negatively related to its tolerance for overreward.

Hypothesis 6 was tested by regressing the single-item prosocial action measures and the prosocial action scales on equity sensitivity. Type of inequity, expectancy, and resource dependence were included in the models in order to control for their effects.

For the employee-employer vignette, equity sensitivity was found to be a significant predictor of responses to the single-item prosocial measure, “what is the likelihood that you will agree to work extended hours at the Center one day next week, as your supervisors have asked?” ( $t = 8.673$ ;  $p = .000$ ). In a separate regression, equity sensitivity was also found to be a significant predictor of the prosocial action scale ( $t = 2.463$ ;  $p = .014$ ), which included the aforementioned item as well as the items, “what is the likelihood that you would put more effort into your work at the Center,” and “what is the likelihood that you would advise others to seek employment at the Center.” Both of these results support H6.

For the customer-retailer vignette, however, equity sensitivity was not found to be a significant predictor of the single-item prosocial measure, “what is the likelihood that you would provide a **positive** testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would **not** be paid for your testimonial.)” ( $t = .915$ ;  $p = .361$ ). Likewise, equity sensitivity was not found to be a significant predictor of the prosocial index, which included the above item and the item “what is the likelihood that you would advise others to shop at Blu-Chip” ( $t = .722$ ;  $p = .471$ ). Thus, subject responses to the customer-retailer vignette provided no additional support for H6.

#### **5.4 CHAPTER SUMMARY**

This chapter has summarized the results of statistical tests of my various hypotheses. My final chapter will discuss these results and their implications, and make suggestions for future research in this area.

## **6.0 DISCUSSION, LIMITATIONS, AND CONCLUSION**

In this final chapter, I begin by discussing the results of my study and its various limitations. Next, I discuss the theoretical implications of this work – primarily in terms of the existing literature on stakeholder theory – as well as the practical implications, and conclude the dissertation.

### **6.1 DISCUSSION OF RESULTS**

Several conclusions can be drawn from the results of my study, though they must be tempered with acknowledgment of the study's various limitations, which will be discussed later.

#### **6.1.1 The Role of Equity Perceptions in Stakeholder Action**

Since, in the equity theory literature, underreward has consistently been linked to dissatisfaction, I hypothesized that stakeholder action should be related to perceptions of equity in the stakeholder-FO relationship: specifically, underreward should be likely to lead to stakeholder action. Results provided support for the position that stakeholders take equity into account in their decisions concerning the appropriateness of action against the FO. For both vignettes, all the stakeholder action factors derived from subjects' responses were significantly related to the type of inequity condition: subjects in the underreward condition provided responses that indicated that they were significantly more likely to take action against the FO than were subjects in the underreward condition. The pervasiveness of this relationship across all stakeholder action factors indicates that perceptions of equity are a very important component in determining the likelihood of stakeholder action against the FO.

A stakeholder's perceptions of equity also appear to influence its propensity to engage in prosocial actions; that is, actions that promote the FO's interests. For both vignettes, both the single-item and multiple-item prosocial action measures were positively associated with the type of inequity: overrewarded subjects were more likely to engage in such actions than were underrewarded subjects.

### **6.1.2 The Role of Expectancy Perceptions in Stakeholder Action**

Based on the premise from expectancy theory that motivation to engage in an action is contingent upon perception of the likelihood of success and the perception that successful action will lead to valued outcomes, I hypothesized that stakeholder action should be positively related to expectancies that an action can, in fact, be undertaken, and that that action, if undertaken, will lead to valued outcomes. The initial analysis indicated that none of the stakeholder action factors associated with the employee-employer vignette and only one of the stakeholder action factors associated with the customer-retailer vignette was significantly related to expectancy.

This was an unexpected result. One possible reason for this eventuality is the nature of the vignettes themselves. Each vignette was written in such a way that the "plot" tended to center around the equity manipulation rather than the expectancy manipulation. For each, the expectancy manipulation occurred in a short paragraph toward the end of the vignette. Thus, it may be that the expectancy manipulation was simply less apparent to subjects than the equity manipulation. The results of the manipulation checks for type of inequity and expectancy support this position: for the type of inequity manipulation the differences between group means on the seven-point Likert scales were 3.41 for the employee-employer vignette and 4.24 for the customer-retailer vignette, while for the expectancy manipulation, the differences between group means were considerably smaller – 1.26 for the employee-employer vignette and 1.63 for the

customer-retailer vignette. While the t-tests for the expectancy manipulation checks indicated that the differences between group means were significant, it appears that the expectancy manipulation was substantially less “successful” than the type of inequity manipulation. In short, the type of inequity manipulation may have “dominated” the expectancy manipulation in the minds of my subjects, due to the form of the vignettes.

To further investigate the role of expectancy, I also employed a median split on the expectancy manipulation check questions to divide subjects into “high” and “low” expectancy conditions irrespective of experimental condition. Results from this analysis indicated that two of the four stakeholder action factors associated with the employee-employer vignette, “voice/job-related,” and “job action” were significantly related to expectancy, which provides some evidence that perceptions of expectancy are determinants of stakeholder action. However, the factors “sabotage/shirking” and “manipulation of effort” were not related to expectancy.

At first, I found the latter results confusing; however, upon further reflection, they made considerable sense. The expectancy manipulation statement for the employee-employer vignette was preceded by the statement,

“On occasion, student employees at various research centers throughout the University have used various means to try to obtain pay increases from their respective employers. They have, among other things, 1) complained to their superiors and the Student Employment Office, 2) attempted to organize a union or attempted to join existing unions, and 3) organized impromptu “strikes,” wherein they temporarily stop reporting for work.”

It is readily apparent that the specific actions mentioned in this paragraph are most closely related to the factors “voice/job-related” and “job action,” and the stakeholder action items associated with them. Indeed, there is no mention in the preface to the expectancy manipulation of the efficacy of “manipulation of effort” or “sabotage/shirking” behaviors in bringing about a favorable response from the employer. Furthermore, while the proposition that

manipulation of effort (specifically, putting in more effort) might in fact result in a pay raise can be derived from expectancy theory, it is substantially less clear that shirking or sabotage activities should lead to such an eventuality.

Thus, the lack of a significant relationship between expectancy and the “manipulation of effort” stakeholder action factor may be due to the fact that actions related to the latter were not explicitly mentioned in the preface to the expectancy manipulation, while the lack of a significant relationship between expectancy and the “sabotage/shirking” stakeholder action factor may be due to the same fact and/or the lack of an obvious theoretical connection between engaging in such actions and the receipt of a pay raise. When one considers these possibilities, the results concerning the relationship between expectancy and the propensity of stakeholders to take action against the FO are not as mixed as they might at first appear: those action factors that were most closely related to the specific actions mentioned in the expectancy manipulation were found to be significantly related to expectancy.

A similar analysis could explain why, for the customer-retailer vignette, in the initial analysis only the “external” action factor was significantly associated with the likelihood of stakeholder action. The expectancy manipulation in this vignette was preceded by the statement:

“In the past, customers have taken a variety of actions to attempt to get their desires met by Blu-Chip. Among other things, they have complained to Blu-Chip management, sued Blu-Chip in small claims court or taken other legal action, posted the story of their concerns with Blu-Chip on the internet, filed complaints about Blu-Chip with the Better Business Bureau, and attempted to organize boycotts of Blu-Chip among their friends or the general public.”

The specific actions mentioned in this statement correspond almost exactly with the various items associated with the “external” action factor, but exhibit very little correspondence with the “shopping-related” action factor (though this factor includes one item concerning complaining to Blu-Chip management, and includes items that *could* conceivably be seen as



being loosely related to the concept of a boycott), and exhibit no correspondence whatsoever with the third factor, “unethical retribution.” Once again, the stakeholder action factor closely related to those actions explicitly noted in the preface to the expectancy manipulation was found to be closely related to expectancy, while those factors consisting primarily of items not explicitly mentioned in the preface to the expectancy manipulation were not.

A similar situation ensued when I employed median splits on the expectancy manipulation for this vignette. Results from this analysis indicated that the “shopping-related” action factor, in addition to the “external” action factor, was related to expectancy. The “unethical retribution” factor was once again unrelated to expectancy. In this case, both the factors that could reasonably be related to the stakeholder actions stated in the preface to the expectancy manipulation were significantly related to expectancy, while the factor unrelated to those actions was not. Taken together, these results, like those associated with the employee-employer vignette, suggest that the relationship between expectancy and the likelihood of stakeholder action is not as ambiguous as it might have first appeared.

### **6.1.3 The Role of Resource Dependence in Stakeholder Action**

According to Adams (1965), severance of a relationship is an act of last resort for those who perceive underreward in their relationships. This is due in large part to the fact that severance of a relationship can be a very costly prospect: severance cuts off all the positive outcomes, both intrinsic and extrinsic, that were previously derived from the relationship. I expected that the cost of severance of the stakeholder-FO relationship would be closely associated with the degree of resource dependence exhibited by the stakeholder with respect to the FO, and so hypothesized that an underrewarded stakeholder’s propensity to sever its relationship with the FO would be related to the extent to which it depended on the FO for critical resources. Results from the

employee-employer vignette supported this hypothesis; however, results from the customer-retailer vignette did not.

It was somewhat surprising to find that relationship severance should be related to resource dependence for one stakeholder-FO relationship but not for the other. One possible explanation of these results is that the effect of resource dependence on the tendency for an underrewarded stakeholder to sever its relationship with the FO varies with the type of stakeholder-FO relationship. However, I believe it is more likely that the lack of a significant result for the customer-retailer vignette is due to what might be considered a deficiency in the wording of the vignette itself. In the customer-retailer vignette, the retailer refuses to repair the customer's malfunctioning laptop. A functioning laptop (customized for the specific purposes of the customer) was meant to represent a critical resource. In the high resource dependence condition, the vignette states that,

“Due to the highly customized nature of your computer, and the fact that its CPU is a component manufactured especially for Blu-Chip, you would not be able to find a replacement CPU from another retailer.”

It is possible that subjects did not find this situation to represent a real manifestation of resource dependence. For example, though it is stipulated in the vignette that the computer is highly customized and a replacement CPU cannot be found anywhere except Blu-Chip, I did not stipulate that a similarly customized computer could not be found at another retailer. Therefore, the fact that the CPU could not be purchased elsewhere may not have been seen by subjects as evidence of resource dependence. The resource dependence manipulation check for this vignette was not sufficient to detect this possibility, as it only asked subjects for their perception of the likelihood that they could find a replacement CPU from a retailer other than Blu-Chip: it did not assess the possibility that the subject might find a replacement *computer* at a different retailer.

#### **6.1.4 The Role of Equity Sensitivity in Stakeholder Action**

Two of my hypotheses concerned the relationship between equity sensitivity and stakeholder propensities to act against the FO. Results concerning the impact of this variable were mixed. I hypothesized that even overrewarded stakeholders might be inclined to take action against the FO, given that overreward is more likely to be tolerated than underreward. Work concerning equity sensitivity suggests that such tolerance for overreward will vary across individuals, with “entitleds” exhibiting substantial tolerance, while “equity sensitives” and “benevolents” will be made uncomfortable by overreward (Huseman et al., 1987). Therefore, I posited that the likelihood of stakeholder action against the FO by an overrewarded stakeholder should be related to the equity sensitivity exhibited by the stakeholder. Furthermore, I hypothesized that prosocial behaviors by the stakeholder should also be related to equity sensitivity, given that benevolents are often conceptualized as altruists (Huseman et al., 1987).

Results provided partial support for the first hypothesis: though only one stakeholder action factor associated with the employee-employer vignette, “job action,” exhibited a significant relationship with equity sensitivity, two of the three action factors associated with the customer-retailer vignette, “shopping-related” action and “external” action, were significantly related to equity sensitivity. The second hypothesis was only supported with respect to the employee-employer vignette: for the customer retailer vignette, prosocial stakeholder actions were not found to be significantly related to equity sensitivity. This unexpected result may have been due to variability in the influence of equity sensitivity across relationships: Huseman et al., (1987) suggested that individuals might exhibit different equity sensitivities in different types of relationships.

### 6.1.5 Revisiting the Equity/Expectancy Framework

In Figures 6.1 and 6.2, I fit mean responses to questions concerning the likelihood of stakeholder action into the equity expectancy framework outlined in Chapter 3. In each cell I have summed the means for action factors for subjects in the experimental condition corresponding to that cell. As noted above, not all of the action factors (e.g., sabotage) would be correlated by a rational individual to the outcome at stake in the vignette: for example, in the employee-employer vignette, a rational subject would probably not assume that engaging in sabotage or shirking behaviors would lead to a pay increase. Accordingly, only means concerned with stakeholder action factors associated with items explicitly identified in the vignettes as activities that could increase the likelihood of the desired outcome have been included in Figures 6.1 and 6.2.

		TYPE OF INEQUITY	
		Underreward	Overreward
E X P E C T A N C Y	High	Sanctions (15.3)	Possible Aggrandizing (12.5)
	Low	Submission or Severance (14.3)	Contentedness/ Cooperation (13.0)

**Figure 6.1: Results Applied to the Equity/Expectancy Framework:  
Employee-Employer Vignette**

The framework suggests that sanctions directed at the FO by stakeholders are most likely in the underreward/high expectancy condition and least likely in the overreward/low expectancy condition. These postulates are borne out by the cell means associated with both the employee-employer vignette and the customer-retailer vignette. The fact that, for the employee-employer vignette, the cell mean for the overreward/low expectancy condition is greater than that for the overreward/high expectancy condition was unexpected, as the implications of the framework suggest that the cell mean for the latter condition should have been greater than that of the former, as was the case for the customer-retailer vignette. Late in the research process, though, it was speculated that the expectancy condition might be more important in determining the likelihood of stakeholder action in underreward situations than in overreward situations, since an overrewarded stakeholder is more likely to be content with the situation and to view action against the FO as unnecessary: accordingly, expectancy considerations may be less salient to such stakeholders. Such an interaction effect between type of inequity and expectancy was not found in the overall MANCOVA, but the direction of the difference between the overreward/low expectancy and overreward/high expectancy cell for means in Figure 6.1 would fit with such a hypothesis. Finally, as expected, for both vignettes, the cell means for the underreward/low expectancy condition fall between those of the underreward/high expectancy condition and those of the overreward conditions.

		TYPE OF INEQUITY	
		Underreward	Overreward
E X P E C T A N C Y	High	Sanctions (14.7)	Possible Aggrandizing (11.4)
	Low	Submission or Severance (14.0)	Contentedness/ Cooperation (11.0)

**Figure 6.2: Results Applied to the Equity/Expectancy Framework: Customer-Retailer Vignette**

## 6.2 LIMITATIONS

### 6.2.1 Limitations Concerning External Validity

**6.2.1.1 The Use of Only Two Types of Stakeholder.** One substantial threat to the external validity of my study has its roots in the almost limitless breadth of the term “stakeholder.” While narrow definitions of the term exist, and some researchers limit the application of the term to so-called “generic” stakeholders such as shareholders, employees, customers, suppliers, communities, and governments, or to “contract-holders” (Freeman & Evan, 1990), if one adopts Freeman’s (1984) definition that a stakeholder is any group or individual who can affect or is affected by the achievement of the organization’s objectives, the number of possible stakeholder-FO relationships escalates drastically.

I chose to use two types of stakeholder-FO relationships in my study in part to make the results more generalizable than if I focused on one type of relationship. I also was limited in the

types of relationships I was able to study once it was determined that I would use a student sample: I needed to choose stakeholders that my student subjects could relate to (the majority of students have been employees, while all have certainly been consumers). Furthermore, employees and customers are two of the “generic” stakeholders identified throughout the stakeholder literature (e.g., Freeman, 1984), and they are certainly two of the most important stakeholders in any business organization. Nonetheless, given the extraordinary variety of possible stakeholder-FO relationships, the fact that I have only addressed two types of relationship in this dissertation clearly limits the generalizability of my results, and so represents a threat to the external validity of my study. This concern is tempered if one accepts a narrow definition of the term stakeholder; however, in any case, further work in this vein should expand the stable of stakeholders addressed.

A related issue concerns what could be considered “indirect” exchange relationships between the stakeholder and the FO. I have asserted that stakeholders may view the treatment of other stakeholders, or non-stakeholders, as relevant outputs that will be considered in the development of perceptions of equity in stakeholder-FO relationships. While a stakeholder may have very strong concerns about the treatment of another, some might argue that in such relationships the “exchange” nature of the stakeholder-FO relationship is diminished, such that stakeholder action against the FO is less likely. The two stakeholder-FO relationships addressed in this study are both “direct” in nature – the treatment of other stakeholders is not expected to be a major concern to the subject in either of the vignettes used. Thus, this work does not assess the implications of situations where the stakeholder is concerned about the interests of another stakeholder or a non-stakeholder.

**6.2.1.2 The Use of Student Samples.** The use of student samples in the collection of both my pilot and final data also represents a limitation of my study. As noted, I attempted to reduce the degree to which this limitation compromised the external validity of my findings by choosing two stakeholder-FO relationships in which all or most undergraduate business students are likely to have taken part: most have been employees, and all have been consumers. Nonetheless, it is possible that undergraduate business students respond differently to inequities in such relationships, or in relationships in general, than do others. Such a situation would have affected my instrument development during pilot studies as well as my data gathered in the collection of final data, reducing the external validity of my study.

**6.2.1.3 Intention Versus Behavior.** Another critical limitation of my study is its apparent focus on intention rather than behavior. While the goal of my dissertation has been to establish some of the key determinants of stakeholder action, none of my dependent measures truly measures action (beyond expression of an intention). Measures of actual behavior were, of course, impossible due to my experimental design, particularly my reliance on vignettes as proxies for real-life situations.

Intention is the cognitive representation of a person's readiness to perform a given behavior (Ajzen, 1991). In his theory of planned behavior, Ajzen (1991) asserts that intentions are the immediate antecedents of and the best predictors of behavior; however, there is certainly a substantial divide between the two. Because they are hypothetical, measures of intention often overestimate subjects' propensities to engage in behaviors; thus, it is likely that my subjects were more inclined to express an intention to engage in a stakeholder action than they would be to actually engage in that action, since expression of intent is very low-cost, and behavior is often very costly. Furthermore, any number of intervening variables might mitigate the relationship



between intentions and behavior. Though one might argue that, since I measured perceptions of the “likelihood” that subjects would take particular actions, subjects might have taken such intervening variables into account in their responses (which might lead to the conclusion that I was measuring something closer to behavior than mere intention), the more conservative position is that my dependent measures assessed intention only. Therefore, while my study seems to have identified some of the variables that determine a stakeholder’s intention to take action against a FO, it has not determined that these variables predict actual stakeholder action.

**6.2.1.4 Temporal Limitations.** As noted earlier, my framework represents a “snapshot” of stakeholder propensities to take action against a FO: a depiction of those propensities at a particular point in time. I made no attempt to describe changes in stakeholder perceptions of equity and expectancy, though such dynamism has important implications for my results.

Arguments from researchers such as Vecchio (1982), Cosier and Dalton (1983), and Carrell and Dittrich (1978) suggest that the perceptions of inequity and the dissonance associated with it can decrease over time: such perceptions may be transitory phenomena, or may recur intermittently. This may particularly be the case in situations of overreward (Cosier & Dalton, 1983; Greenberg, 1988; Pritchard et al., 1972). Perceptions of expectancy will vary across time as well. Clearly, stakeholder intentions to act against a FO will vary in accordance with variations in their perceptions of equity and expectancy. Furthermore, the longer the time period between intention and behavior, the greater the likelihood that unforeseen events will produce changes in perceptions and, therefore, intentions (Ajzen, 1991). As Weick (1966: 432-433) puts it, “if inequity is not reduced as soon as it occurs, there will be continuing circumstances, possibly more advantageous than the present one, in which ratios can be aligned.”

As noted earlier, the potential for temporal moderation of perceptions of equity and expectancy introduces an important caveat to my framework and the results of my study: the propensity for stakeholder action resulting from certain perceptions of equity and/or expectancy may be a very dynamic variable, depending on the dynamism of the stakeholder's perceptions, which, of course, may be influenced by a vast array of variables.

**6.2.1.5 The Formation of Stakeholder Groups.** Throughout this dissertation I have taken the point of view that the individual is an important unit of analysis for understanding stakeholder action. I have made note of Winn's (2001) assertion that stakeholder groups are socially constructed, Gibson's (2000) position that referring to stakeholder "groups" is a convenient way to describe many individuals, and the fact that individuals within stakeholder groups may differ widely in terms of their interests, attitudes, and inclinations (Klandermans, 1984). However, it is undeniable that stakeholders often operate in groups in their relationships with FOs, and stakeholders, when they take action, often do so as collectives of individual stakeholders.

My approach should be applicable to stakeholder groups as well as individuals. The actual decision for a stakeholder group to take action is likely not the result of the inclinations all the individuals comprising that group; rather, it hinges on the perceptions of one or a few key decisionmakers or authority figures. I have asserted that what are most important in understanding stakeholder behavior are the motivations of what Frooman (2000) calls key "influencers" or decisionmakers within the stakeholder group or organization. I believe that the opinions of these influencers and decisionmakers have a substantial impact on the behaviors of other individuals within the stakeholder group; therefore, if the influencer is motivated to have the stakeholder group or organization take action against the FO, she will be able to use her

influence or authority to attempt to convince other individuals within the stakeholder group or organization to take part in such action.

Thus, I have asserted that much action by stakeholder groups or organizations is best understood if it is reduced to the motivations of key individuals within those groups or organizations. However, I have not attempted to describe how groups, or “collectives” are formed in the first place, though the formation of a group is obviously a critical precursor to action by that group. For example, how does a consumer group come into being? While I have included in my instrument some items, such as “what is the likelihood that you would attempt to organize a union drive by student employees...” and “what is the likelihood that you would try to organize a boycott among the general public,” these items, as measures of intentions, overlook many of the difficulties in organizing a diversity of individuals into a collective. Without this initial organization into collectives, of course, stakeholder groups will not exist, and so cannot act.

The organization of people into collectives is difficult, however. The lack of resources is often a substantial impediment to organization (Jenkins & Perrow, 1977). Furthermore, free-rider issues may lower the likelihood of individuals’ participation in a group: if individuals act in their economic self-interest, and they realize that they can obtain the same benefits as active participants in the collective without participating themselves, the propensity to become actively involved will be reduced (Olson, 1965). These problems may be overcome if the proper resources are available – material resources for coordinating and organizing, and nonmaterial resources, such as leadership (Rowley & Moldoveanu, 2003) – but I have eschewed discussion of these issues. In short, throughout this dissertation, when I have addressed the idea of action by stakeholder groups, I have essentially assumed the existence of those groups. While I appear

to have identified some of the issues that would lead an individual to be interested in taking part in the action of a stakeholder group and some of the factors that would motivate “influencers” to advocate action by their stakeholder groups, I have not attempted to address the conditions under which organizing disparate individuals into entities that can be meaningfully termed “stakeholder groups” can occur.

## **6.2.2 Limitations Concerning Internal Validity**

**6.2.2.1 Use of Between-Subjects Design.** Strictly speaking, both equity and expectancy theory are best tested using within-subjects designs, since the effects they posit are within-subjects. Despite this, I conducted my experiment using a between-subjects design. Though the use of between-subjects design is commonplace in empirical work on equity theory, and is by far the dominant design in studies of expectancy theory (Van Eerde & Thierry, 1996), a between-subjects design is technically at odds with precise tests of these theories.

Both equity theory and expectancy theory are models of individual decision-making; therefore, their effects should ideally be viewed as within-subjects phenomena. Analyzing scores of different individuals as a group only gives information about the amount of variation in the group, rather than information about variation within individuals. Use of a between-subjects approach may mask variations within individuals (Campbell and Stanley, 1963) and cause the amount of explained to be lower than it would be with a within-subjects design (Mitchell, 1974). In expectancy theory, for example, within-subjects analyses have usually yielded stronger correlations than between-subjects analyses (Mitchell, 1982). If these phenomena occurred in my study, the internal validity would be reduced.

Despite its shortcomings, however, I felt that it would have been very difficult to conduct my study without relying on a between-subjects design. As noted earlier, I used such a design

because to subject one individual to all eight of my experimental conditions would have been extraordinarily difficult. Since responding to one condition of my instrument took about 20 minutes for each subject, it was expected that conducting a within-subjects study would have made recruitment of subjects extremely problematic. Furthermore, a within-subjects design would most likely have resulted in significant respondent fatigue, which would have introduced substantial measurement error and diminished the validity of my results. A within-subjects design might also have elicited demand effects, as subjects would likely have been able to determine the nature of my manipulations after being exposed to several of them.

**6.2.2.2 Action Factor Reliabilities.** The internal reliabilities of some of the stakeholder action factors was a concern in this study. In particular, the “unethical retribution” factor associated with the customer-retailer vignette exhibited a Cronbach’s alpha of only .448. While I retained this factor out of interest, the reliability of this factor is clearly a substantial issue (though, as noted earlier, low reliability is to be expected for a two-item scale). As a result, one must use caution in interpreting my results concerning this factor.

The internal consistency reliabilities of two other factors could also be questioned. One widely-accepted standard concerning the threshold for acceptability in terms of internal consistency (as measured by Cronbach’s Alpha) is .70 (Nunnally, 1978), though others are as lenient as .60 (Hair et al., 1995), and the standard of reliability varies across fields within disciplines such as psychology. Two of the stakeholder action factors associated with the employee-employer vignette, “sabotage/shirking” action and “manipulation of effort” fall within .60 and .70 in terms of their Cronbach’s alphas. Neither of these factors could be improved in terms of their reliabilities by deleting items. Thus, these two stakeholder action factors exhibit what some would regard as “marginal” acceptability in terms of their internal consistency. One

might argue that results concerning these factors, too, should be regarded with caution, since their somewhat low reliabilities limit their validities.

**6.2.2.3 The Use of Single-Item Measures.** I employed single-item measures for the testing of some hypotheses. While for the hypotheses concerning prosocial stakeholder action the initial single-item measure was augmented by using it in a multiple-item scale as well, in testing H4 I used single-item measures (one for each vignette) as the only dependent variables. I employed these measures primarily in an effort to avoid lengthening the instrument, which was very long, and thereby avoid exacerbating the possibility of respondent fatigue influencing my results. Furthermore, the items I chose (“quit your job” for the employee-employer vignette, and “refuse to shop at Blu-Chip in the future” for the customer-retailer vignette) seemed representative of the most obvious forms of severance of the stakeholder-FO relationships of concern.

While single-item measures are popular due to the possibility of their quick and easy administration, they are often seen as less appropriate than multiple-item measures for the measurement of complex constructs (Loo, 2002). Recently, though, some have challenged the necessity of multiple-item measures, arguing that, in some cases, one item can be as reliable and valid as a multiple-item scale (Gardner et al., 1998; Wanous, Reichers, & Hudy, 1997). My impression is that relationship severance does not represent an overly complex construct (as opposed to, for example, job satisfaction), and I believe that the items I used effectively reflect the idea of severance of the stakeholder-FO relationships of concern. Nonetheless, the use of single-item measures does represent a limitation of my study, as the severance measures and the single-item prosocial action measures may be limited in their reliability, which, in turn, places limits on their validity.

## 6.3 CONTRIBUTIONS OF THE STUDY

### 6.3.1 Understanding Stakeholder Action

The most important contribution of this work concerns its explanation of the precursors of stakeholder action against FOs. As noted, a critical force underlying the stakeholder approach concerns conflict between stakeholders and FOs, and the fact that the FO can be faced with stakeholder attempts to sanction it for its actions. However, the conditions that lead to stakeholder action have not been well described in the literature to date. The exception to this statement is work by Rowley and Moldoveanu (2003), which focuses on stakeholder action based on attempts to establish, enhance, or maintain social identity. My work provides an alternative view to that of Rowley and Moldoveanu (2003) by identifying the connection between stakeholder interests, stakeholder motivation, and stakeholder action.

While Rowley and Berman (2000) also explicitly address the conditions that promote action by stakeholders against the FO by positing that particular characteristics of the firm, the industry, the stakeholder environment, the institutional environment, and the issue at hand affect the likelihood that stakeholders will act against the FO, their assertions do not appear to have been derived from any particular theoretical base. My work provides a coherent theoretical basis for propositions concerning the likelihood of stakeholder action, underlain by two extremely well-researched theories of behavior: furthermore, I submit that the majority of the relationships between various factors and stakeholder action suggested by Rowley and Berman (2000) can be derived by applying equity and expectancy theories to understand stakeholder action.

For example, as noted in Chapter 1, Rowley and Berman (2000) posit that previous successful actions by stakeholders against an organization increase the propensity of stakeholders to act against the FO. This position can be understood with reference to expectancy

theory. Lawler (1973) pointed out that one important influence on expectancies is past experience in similar situations. Thus, past successful action by stakeholders against an organization will increase their and other stakeholders' perceptions that 1) future actions can also be successfully undertaken (i.e., stakeholders' E-P expectancies will be elevated) and 2) such action will lead to the desired outcomes (i.e., P-O expectancies will be elevated). These conditions will increase stakeholder motivation to act. Other conditions proposed by Rowley and Berman (2000), such as low costs of action, the importance of the industry to the larger social system, and the existence of a collective consciousness of action will similarly enhance stakeholder expectancies, and so also affect stakeholders' propensities to act.

Thus, this work contributes to the stakeholder literature by augmenting the meager body of work explaining stakeholder action. Furthermore, it explains the latter phenomenon using a theoretical underpinning that is not based on social identification (which Rowley and Moldoveanu (2003) acknowledge is not the basis for most stakeholder action), and which incorporates well-established theories of behavior.

### **6.3.2 Delineation of an Interest-Based View of Stakeholder Action**

As noted earlier, there is an underlying assumption in stakeholder research that stakeholder action is interest-driven (Rowley & Moldoveanu, 2003): stakeholders, when they take action against a FO, tend to do so to promote or protect the things they value. However, this interest-based view, while acting as the foundation for much thought in stakeholder theory, has remained largely unarticulated.

This work provides an articulation of the interest-based view through its incorporation of stakeholder interests in the form of outcomes that are valued by the stakeholder. In this work, stakeholder interests (i.e., outcomes) provide the impetus for stakeholder action through their



impacts on stakeholders' motivations to act against the FO. Stakeholder outcomes are taken into account through the outcome/input ratio that drives motivation in equity theory: higher outcomes increase the stakeholder's ratio, and generally will reduce the stakeholder's propensity to take action against the FO by leading to either reduced perceptions of underreward or increased perceptions of overreward. Though my results concerning the effects of equity sensitivity on stakeholder action were mixed, equity sensitivity may also play a role: "entitled" stakeholders will have a greater tendency to focus on outcomes and may prefer overreward, such that they are more likely to act against the FO in order to forward their interests than are other stakeholders.

Stakeholder interests are also taken into account in expectancy theory. In particular, high valence outcomes (i.e., important interests) will motivate stakeholders to take action against the FO if stakeholder expectancies that such action will promote or preserve those interests are sufficiently high. Thus, this work provides articulation of the interest-based view of stakeholder action, particularly by articulating the processes through which FO actions that affect stakeholder interests are translated into stakeholder motivation and the propensity of the stakeholder to act against the FO.

### **6.3.3 The Acknowledgement of Prosocial Actions by Stakeholders**

Students of stakeholders tend to focus on the potential for conflict in stakeholder-FO relationships, and the related potential for the imposition of sanctions on the FO by stakeholders. They typically do not acknowledge the potential for stakeholders to act in the interests of the FO, despite the fact that this potential clearly exists. This work has taken some preliminary steps toward investigating stakeholders' propensities to act in the interests of the FO by engaging in prosocial actions. Results indicated that prosocial activities by stakeholders are more likely if the stakeholder perceives overreward in its relationship with the FO.

#### **6.3.4 Equity/Expectancy as an Augmentation of Instrumental Stakeholder Theory**

This work also serves to augment instrumental stakeholder theory as conceptualized by Jones (1995). Jones (1995), in his explication of instrumental stakeholder theory, makes propositions concerning the effects of particular firm behaviors on firm performance. His focus is on the “contracts,” or relationships, that exist between the firm and its various stakeholders. He refers to agency theory (Ross, 1973; Jensen and Meckling, 1976; Mitnick, 1982), transaction cost economics (Williamson, 1975), and team production (Alchian & Demsetz, 1972) to develop propositions based on the idea of opportunism on the part of the managers, who are “contracting agents” for the firm, forging and managing the various relationships between the firm and its stakeholders.

The essence of Jones’ (1995) argument is that opportunistic behaviors on the part of a firm’s managers lead to contracting inefficiencies (i.e., difficulties in forging or maintaining stable, cooperative, and, especially, trusting relationships with stakeholders), such that the firm’s performance will suffer relative to that of non-opportunistic firms (Jones, 1995). Jones’ propositions articulate how firm behaviors such as the use of shark repellent, poison pills, or greenmail, the payment of disproportionately high levels of compensation to executives, the use of many suppliers, the contracting out of work, and the use of external rather than internal labor markets may be seen as opportunistic behaviors, and may generate negative effects on firm reputation and erode trust between stakeholders and the FO which, in turn, can have a negative impact on firm performance.

While Jones’ argument concerning the performance effects of the negative firm reputation that can result from opportunism is compelling on its own, it is noteworthy that the majority of Jones’ (1995) propositions are also consistent with an equity/expectancy approach to

understanding stakeholder reactivity in stakeholder-FO relationships. For example, Jones (1995) proposes that disproportionately high executive compensation, contracting out of work formerly done by employees, and reliance on external labor markets represent opportunism and a lack of trustworthiness on the part of managers, which can lead to sub-optimal performance due to its detraction from firm relationships with key stakeholders. Such performance effects can be predicted from an equity/expectancy perspective. Disproportionately high executive compensation is likely to lead to perceptions of underreward inequity on the part of key stakeholders such as employees, stockholders, and the like, who are likely to compare their outcome/input ratios to those of highly visible executives. Similarly, contracting out work formerly done by employees and reliance on external labor markets will likely result in employees feeling underreward inequity. If these stakeholders possess non-zero expectancies that they can successfully act against the firm and that such action will lead to positive outcomes, they will be motivated to take action against the firm, which may be detrimental to firm performance.

Thus, an equity/expectancy approach to stakeholder action can be seen as reinforcing Jones' (1995) instrumental stakeholder theory. In general, it seems that opportunistic behavior by firms can lead to difficulty in maintaining relationships with stakeholders because: 1) it produces a lack of trust that has negative effects on firm reputation (as posited by Jones, 1995), 2) it leads to perceptions of inequity between the firm (or its managers) and other stakeholders, and 3) it may have negative effects on outcomes that have high valences to stakeholders. These conditions can precipitate a lack of willingness on the part of the stakeholders concerned to continue to deal with the FO (i.e., severance of the relationship) or a retaliatory reaction by those stakeholders against the firm, both of which are likely to detract from firm performance.

While Jones' (1995) theory relies on the transmission between stakeholders of information concerning opportunism, such that negative effects on firm reputation occur and negative performance effects result, an equity/expectancy position accounts for additional negative performance effects of opportunism that do not rest on the assumption that information relevant to firm reputation will be transmitted across stakeholders: stakeholder action can result from stakeholders' own observations of opportunism and the perceptions of inequity that result. The additional benefit of an equity/expectancy approach as an augmentation of Jones' (1995) position is that it provides insight into when opportunistic behavior by a firm is likely to lead to action by stakeholders and when, on the other hand, such opportunism is unlikely to elicit a reaction from stakeholders (because of, for example, low expectancies).

### **6.3.5 The Combination of Equity Theory and Expectancy Theory**

While some researchers have applied equity and expectancy theories simultaneously (e.g., Harder, 1991; 1992), others assert that equity theory and expectancy theory are competing explanations of motivation. This seems to be the result of the fact that much early work on equity theory compared the implications of underreward and overreward for motivation under piece rate and hourly rate compensation systems. Expectancy theorists such as Lawler (1961) noted that equity theory and expectancy theory make different predictions concerning motivation and productivity in piece rate situations. Equity theory, in Adams' (1963, 1965) conception, asserts that an overrewarded person will reduce output in terms of quantity (while increasing quality) in order to reduce the overreward, while expectancy theory suggests that he or she will increase output as much as possible, as P-O expectancy is very high under a piece-rate system and pay is a valued outcome. Indeed, Lawler (1971) appears to have seen equity theory as a direct threat to the viability of expectancy theory.

The critical distinction between my work and most equity and expectancy research that facilitates the combination of the two theories is that, whereas these theories are generally applied to explain one's motivation to do something that would be regarded as positive (e.g., work harder) by the other in the relationship, my work concerns motivation to engage in action that is *detrimental* to the other relationship participant. My research thus contributes to work on equity and expectancy by indicating that equity and expectancy considerations can combine to motivate individuals, particularly to engage in behaviors that have a negative impact on relationship partners.

#### **6.4 PRACTICAL IMPLICATIONS**

An equity/expectancy approach to understanding stakeholder action represents a model that can assist managers in determining when an action taken by their organization is likely or unlikely to elicit a reaction from the stakeholders affected by it. Specifically, assuming a high-valence outcome is at stake, reaction is most likely to occur in response to firm actions that indicate or create underreward (from the stakeholder's perspective) in the stakeholder-FO relationship if the expectancies that 1) a reaction (i.e., effort) will lead to the successful performance of activities or establishment of conditions that may lead to a positive outcome for the stakeholder and 2) the performance of such activities or establishment of such conditions will, in fact, lead to a positive outcome for the stakeholder, are high.

The ramifications of this are manifold, and suggest several directions for managerial attention. Expectancy considerations require that managerial attention be directed toward the determination of what stakeholders really value; that is, the outcomes that are particularly high in valence to them. Typically, expectancy theorists assert that identifying what individuals value is

important so that they can be rewarded with high-valence outcomes for successful performance. The intention underlying clear identification of what stakeholders value highly is somewhat different. Since an objective of the FO should be to *inhibit* stakeholder motivation to act against it, those outcomes that are high in valence to a stakeholder are those that should not be “interfered with” by firm actions – if such non-interference is possible – since impeding a stakeholder’s attainment of high-valence outcomes may motivate action against the firm by that stakeholder. By explicitly identifying the outcomes that are high in valence to its stakeholders, managers can gain insight into which outcomes should not be jeopardized by firm activities.

Equity considerations imply that managers of a FO should find ways to make sure that stakeholders are fairly treated or, at least, perceive that they are being fairly treated. That is, stakeholders must perceive that the ratio of their inputs into the FO to the outcomes they derive from the FO is reasonably close to the O/I ratios of the firm and comparison-other stakeholders. Becoming informed of stakeholders’ perceptions of the degree of equity in the relationship becomes an important managerial task, as does attempting to make sure that those perceptions are positive ones. Extrapolation from studies in the procedural justice literature (e.g., Conlon, 1993; Thibaut & Walker, 1975) suggests that giving stakeholders a voice in the decision process can positively affect their perceptions of fairness. While this is not likely to be feasible in all situations, it is possible in some, and could help promote perceptions of equity on the part of the stakeholder, and so help the FO avoid having action directed against it by that stakeholder. Providing an explanation of outcomes can also promote perceptions of equity (Williams, 1999) and reduce the dissonance associated with underreward (O’Malley & Becker, 1984), which suggests that managers would do well to make sure that important stakeholders are given

reasonable explanations for any negative outcomes they may experience due to the firm's activities.

Furthermore, managers of the FO would be wise to undertake to understand which other stakeholders in its network a given stakeholder is likely to use for purposes of comparison. Stakeholders in a similar industry or possessing a similar relationship to the FO (e.g., "suppliers") may be likely candidates for comparison, as may stakeholders whose inputs to or outcomes from the FO are widely known. Knowledge of the referents a stakeholder is likely to use for comparison purposes in assessments of equity is important, because the choice of comparison other can have an impact on whether one perceives equity or inequity in her relationships (Griffeth et al., 1989).

In addition, equity theory posits that what is an input into a relationship is determined by the *contributor's* opinion concerning its relevance to the exchange (Adams, 1965). Inequity may be perceived by one party in the relationship if things it considers are relevant inputs are not seen to be relevant inputs by the other party. Thus, a stakeholder may perceive inequity in its relations with the FO if things it considers to be relevant inputs into the relationship are not considered to be such by the FO. For example, a supplier to an organization might regard reliability as a relevant input to its relationship with the FO, while the FO regards the resource supplied as the only relevant input. The supplier, who would not be being compensated in any form for such reliability might feel underreward inequity, and such inequity might motivate the supplier to act against the FO – by seeking alternative customers or refusing to supply the resource, for example. Therefore, if one adopts an equity/expectancy-based approach to understanding stakeholder-FO relationships, it becomes clear that the firm, if it wishes to avoid having stakeholder action directed against it, must make an effort to understand what its

*stakeholders* consider to be inputs into their relationships with the firm – what they perceive that they contribute to the firm’s well-being. By doing so, the FO can have a better understanding of its stakeholders’ perceptions of the degree of equity in their relationships with the firm, and perceptions of inequity that could lead to a stakeholder sanctioning the FO might be avoided.

Adoption of equity/expectancy point of view also leads to the conclusion that it may be in the interests of managers to pay attention to stakeholder perceptions of expectancies concerning potential actions against the FO. Generally speaking, stakeholder action against the FO may be less likely when expectancies are low, that is, when the stakeholder perceives that it would be very difficult to engage in the proposed action and/or it perceives that the proposed action is unlikely to lead to desired outcomes. It may be possible for FOs to take actions that reduce the perceived likelihood that stakeholder actions can be undertaken successfully (and so lower E-P expectancies) or that reduce perceptions of the connection between successful stakeholder action and outcomes valued by that stakeholder (and so lower P-O expectancies).

For example, six months after the workers at a Wal-Mart store in Jonquiere, Quebec won union certification, Wal-Mart announced that it would close the store. Though Wal-Mart asserted that it was unable to reach an agreement with the union that would allow it to operate the store profitably, due to the fact that union demands would have required increased hiring and additional hours for workers, this contention was disputed by the United Food and Commercial Workers union (UFCW). Wal-Mart’s actions in this case can be regarded as an attempt to reduce employees’ expectancies concerning the efficacy of union certification. Essentially, Wal-Mart was signaling that, even if unionization is possible, it will not lead to better outcomes for employees: in essence, Wal-Mart was acting to reduce P-O expectancies concerning the likelihood that unionization will lead to valued outcomes for employees. Such actions could



reduce the likelihood of unionization by employees at other Wal-Mart stores. Indeed, after the announcement of the store closure, the spokesperson for the UFCW acknowledged that Wal-Mart's action would make other Wal-Mart employees think twice before voting for union accreditation.

On the other hand, actions or inactions of the FO could also raise stakeholder expectancies concerning the efficacy of action against the FO in some situations. For example, if, in the above case, Wal-Mart had acquiesced to the demands of the UFCW, this would have signaled to Wal-Mart employees at other stores that unionization could lead to valued outcomes for them as well; that is, it would have raised P-O expectancies concerning unionization for those employees. Thus, it appears that it is possible for FOs to take actions that influence stakeholder expectancies, and managers seeking to avoid stakeholder action directed at their organizations would be wise to concern themselves with this possibility.

Finally, O'Malley and Becker (1984) found that the dissonance of underrewarded subjects could be ameliorated by explaining to them that the overrewarded referent was distressed by the situation as well. This suggests that managers, when they are forced to make decisions that could lead to perceptions of inequity by stakeholders, should express their commiseration with the latter.

An equity/expectancy approach to thinking about stakeholder action also suggests particular behaviors by those hoping to involve stakeholder groups in undertaking sanctions against a FO. For example, a leader or "influencer" of a stakeholder group could facilitate support for action by reinforcing among others in the stakeholder group the notion that they are underrewarded, and by taking actions designed to bolster expectancies that successful action can

be undertaken and will lead to desired outcomes. Likewise, one stakeholder might use a similar approach to convince other stakeholders to support its action against the FO. Stakeholders might also promote equitable treatment by the FO by clearly expressing to decisionmakers in the latter organization which outcomes it values highly, what entities it is using as comparison others, and what it considers to be its key inputs into its relationship with the FO.

## **6.5 AVENUES FOR FUTURE RESEARCH**

This work suggests a wide variety of avenues for future research concerning stakeholder action. Some of these research opportunities are presented in the following sections.

### **6.5.1 The Nature of the Exchange Relationship and Stakeholder Responses to Inequity**

Several potential areas of future work pertain to the effects of the nature of the stakeholder-FO relationship on stakeholder propensities to take action against the FO. The type of relationship between the individual and the other in the exchange relationship appears to influence reactions to inequity: it may be the case that a similar effect exists in stakeholder-FO relationships. Key relationship characteristics that might be investigated include history (Cosier & Dalton, 1986), duration (Folger & Martin, 1986; Greenberg, 1986; Weick, 1966), attraction (Weick, 1966; Griffith, Vecchio, & Logan, 1989), and intimacy (Wagstaff, 1998; Alexander, 2002).

Whether the stakeholder-FO interaction is a “one-shot” interaction or a longer-term relationship could affect the likelihood of stakeholder action. Folger and Martin (1986) showed that subjects are most likely to react to injustice when the perpetrator of that injustice is expected to be able to continue to do so in the future. This corresponds with Greenberg’s (1986) finding that people were more likely to take action to redress injustice when the injustice was the result

of an organizational policy (a relatively stable and permanent attribute) than when it resulted from an individual's decision (and therefore may be temporary).

Other work indicates that longer-term relationships are in general less likely to adhere to norms of equity than short-term ones. This position is consistent with work by Shapiro (1975). In his study, subjects who contributed more inputs than their partner and anticipated future interaction with the exchange partner tended to allocate rewards equally, whereas others tended to allocate using norms of equity. Shapiro (1975) attributes the result to subjects' concern that their exchange partner would evaluate them negatively: this consideration led subjects to downplay equity. A similar result was derived by Kahn, Lamm, and Nelson (1977) using an observer to allocate the rewards: equal outcomes were preferred if the relationship was expected to continue, perhaps because there was an opportunity to make up any inequity in future interactions. These works suggest that inequity in one-shot exchange relationships and inequity resulting from an individual's decision may not generate the same type of response to inequities as longer-term relationships or decisions based on a specific policy.

In a related area, relationship history may also moderate stakeholder responses to inequity. Cosier and Dalton (1983) argue that past levels of inequity-based tension influence the tension felt in the current inequitable situation: historical inequities are not forgotten. Furthermore, the resolution of a current inequity (for example, an underrewarded individual receiving a pay raise) may not completely negate the effects of past inequities: dissonance may persist. Thus, the perception of a history of inequity in the relationship could increase the dissonance associated with a current inequity. The idea that both past and present inequities are considered is consistent with the idea of "the straw that broke the camel's back": a relatively minor degree of current underreward (i.e., one that would normally be tolerated), for example,

could lead to a violent reaction when combined with a lengthy history of underreward (Cosier & Dalton, 1983).

It is also possible that parties in a relationship of great duration may be able to tolerate a higher degree of inequity without being motivated to act (Weick, 1966). Equality signals that the parties to the relationship value each other, which encourages solidarity, and thereby promotes the maintenance of the relationship.

Future work could also investigate how the degree of closeness, or “intimacy” in the stakeholder-FO relationship might also affect the likelihood of stakeholder action. As noted by Wagstaff (1998), it is often asserted that norms of equity apply only in relationships where there is no intimacy or affection in the relationship; however when intimacy is present in the relationship, an equality or need-based norm may be favored. For example, Boldero & Rosenthal (1984) submit that in stable (i.e., “friendly”) relationships, or those involving substantial personal contact, equity may not be the focus: rather, the needs of the exchange partners may be given more consideration in the allocation of rewards in the relationship. These authors state that the departure from equity in such situations is possible because in stable relationships such departures are less likely to result in negative evaluations of one partner by the other. Similarly, in the marketing literature, Hoffman & Kelley (2000) suggest that high proximity relationships, characterized by feelings of attachment and personal involvement, may develop into “boundary open transactions” (Price, Arnould, & Tierney, 1995), which are like “meetings between friends,” and are indicative of a service provider’s interest in the customer as a person. They argue that low proximity relationships will be more likely to be evaluated based on distributive justice (i.e., equity) than high proximity relationships, which may be evaluated based on other criteria.

Clark and Mills (1979) also suggested that normal exchange principles do not apply in intimate relationships, because such relationships are communal relationships rather than exchange relationships: each party cares about the welfare of the other and responds to his or her needs. Similar ideas have been expressed regarding interorganizational relationships. Scheer, Kumar, and Steenkamp (2003) assert that distribution norms might vary across inter-organizational relationships. For example, a firm might follow a norm such as equality with its closest partners while favoring equity in its interaction with other, less close firms. Thus, “friendly” stakeholder-FO relationships may not be evaluated based on perceptions of equity, which implies that inequity in such relationships may not increase the possibility of stakeholder action: stakeholders with strong attachments to an organization may be willing to overlook inequities to a greater extent than those with weaker attachments. Similarly, overreward inequities perceived by stakeholders might be more likely to be compensated for if the stakeholder has a strong attachment to the firm.

On the other hand, Campbell and Pritchard (1976) and Pritchard (1969) assert that in intimate relationships the parties are more likely to be able to assess the levels of each other’s inputs and outcomes, and these inputs and outcomes will be more salient to both parties. Furthermore, they state that cognitive distortions of inputs and outcomes should be more difficult in intimate relationships. They therefore suggest that perceptions of inequity are more likely in intimate relationships than in very impersonal ones. Furthermore, due to the increased difficulty in cognitively distorting inputs and outcomes in intimate relationships, behavioral responses to inequity should be *more* likely in intimate relationships compared to impersonal ones. Likewise, Weick (1966) argues that substantial contact between the parties in an inequitable relationship would consistently remind the parties of the inequity, and would result in “cumulative” tension

or, at least, the perpetual salience of the inequity, thus hastening attempts to rectify it. Thus, the increased ability to detect inequities in intimate relationships may act as a countervailing influence to the increased tolerance for inequity that characterizes such relationships. Following from Campell and Pritchard's (1976) argument, stakeholders in high proximity relationships with the FO might be more likely to detect inequities, and, as Weick (1966) suggests, might be constantly reminded of the inequity, such that the likelihood of action would be increased.

A related topic for investigation is how the effects of equity and expectancy considerations in stakeholder-FO relationships change as the relationship progresses. Vogl-Bauer et al. (1999) suggest that equity considerations may have different effects on a parent-child relationship and its maintenance as the relationship matures. An analogous position relating to stakeholder-FO relationships would be that equity and expectancy considerations have a greater or lesser impact on those relationships depending on the stage of the relationships. For example, underreward inequities might be more likely to be tolerated by a stakeholder early in a relationship than when the relationship has matured, or a stakeholder might be less likely to accept overreward inequities in a well-established relationship. This idea coincides with the previous idea that stakeholder propensities to act might vary in accordance with the depth or intimacy of the relationship, as one would expect relationship depth to increase over time.

### **6.5.2 Attribution of the Inequity**

Future work could also investigate the effects of attribution of the cause of inequity on a stakeholder's response to inequity in its relationship with the FO. Some researchers argue that causal attributions affect responses to inequity (Alexander, 2002; Greenberg, 1987; Holmes & Levinger, 1994; Hunt et al., 1983; Kuijer, Buunk, & Ybema, 2001; Utne & Kidd, 1980; Wagstaff, 1998). Hunt et al. (1983) posit that a person experiencing inequity may attribute the

inequity to a “harmdoing entity” (such as a business in an employee-employer relationship, or a seller in a buyer-seller relationship). On the other hand, the person might attribute the inequity to other causes, external to the harmdoing entity, which may or may not be within that entity’s control. Hunt et al. (1983) argue that in the latter case, the entity’s causal role is “discounted” and the individual’s response to the inequity will be moderated accordingly.

Thus, stakeholders may assign cause or place blame in relationships, and such assignation may influence both the dissonance associated with and the responses to inequity. For example, if an employee perceives underreward in her relationship with her employer, say, due to a wage reduction, she will attempt to determine the reasons for that inequity. If she perceives that the source of the inequity lies in the “disposition” of her employer, she will experience greater distress than if she perceives that the inequity is the result of causes beyond her employer’s control – for example, a floundering economy. In the latter case, she might feel less distress than she would if she attributed the inequity to malevolent intentions of her employer, and might be less motivated to take part in action against her employer to restore equity.

### **6.5.3 Culture and Stakeholder Assessments of Equity**

Cultural standards may limit the applicability of norms of equity (Ring & Van de Ven, 1994; Scheer, Kumar, & Steenkamp (2003). Laufer (2002) asserts that cultures may differ in a variety of ways that may influence reactions to inequity. Specifically, there may be cross-cultural differences in 1) the priority given to equity over other distribution norms, 2) the tolerance of overreward and underreward, 3) the means used to reduce inequity in relationships, 4) perceptions of what constitutes an input or outcome, and 5) the means to measure those inputs and outcomes. Thus, responses to inequity may vary with culture. Another avenue for future

research, then, concerns the degree to which culture affects perceptions of or responses to inequity in stakeholder-FO relationships.

#### **6.5.4 Prosocial Stakeholder Actions**

As noted, researchers in stakeholder theory typically eschew investigation of the idea that stakeholders may act in the interests of the FO. While I, in this work, have taken some small steps toward identifying precursors of prosocial activities by stakeholders, future investigations of “helping” behaviors by stakeholders are warranted.

In a similar vein is the idea of coincidence of the interests of the stakeholder and the FO. As noted, this work has been founded mainly in an assumption, prevalent in the stakeholder literature, that conflict exists between the interests of the stakeholder and those of the FO. Thus, the stakeholder that perceives underreward and the possibility of correcting it may act against the FO to forward its own interests. However, some stakeholder-FO relationships may not be best characterized as exhibiting conflict between the interests of the two parties. For example, employees may be involved in profit-sharing, or may own the business that employs them. Clearly, such relationships, where the interests of stakeholders and the FO coincide to a substantial degree, would be characterized by different stakeholder propensities for action against the FO. Future work in stakeholder theory should address such situations, where the coincidence of stakeholder and FO interests is likely to make action against the FO less desirable.

#### **6.5.5 Other Sources of Stakeholder Motivation**

Finally, it may be that other motivation theories can also offer insights into a stakeholder’s propensity to take action against the FO. For example, stakeholders may set particular goals that they strive to achieve; hence, goal-setting theory may also help us understand how stakeholders



will act with respect to the FO. Addressing the needs and drives of key members of stakeholder organizations could also shed light on the issue of stakeholder action.

## **6.6 CONCLUSION**

My primary goal in conducting this study was to address the general research question, “What are the conditions under which stakeholders will take action against a FO?” My approach to responding to this question involved acknowledging that a stakeholder is likely to act when it is motivated to do so: accordingly I adopted two of the most well-established motivation theories, equity theory and expectancy theory, based on which I developed a framework for understanding when a stakeholder is likely to take action against the FO. I asserted that stakeholders are likely to take action against the FO when they perceive underreward inequity in their relationship with the FO, and when they have high expectancies that they can successfully take action in order to remedy that inequity.

To test hypotheses derived from this framework I developed an experiment wherein subjects perused two vignettes, each concerning a specific stakeholder-FO relationship, and responded to various questions concerning the likelihood that they would engage in various actions. Results provided support for the idea that both stakeholder perceptions of the degree of equity (or inequity) in their relationship with the FO and their expectancies that they can successfully engage in action that will result in valued outcomes affect stakeholders’ propensities to take action against the FO. Other results indicated that overrewarded stakeholders may be more likely than others to engage in behaviors that help the FO. Results concerning the impact of equity sensitivity on stakeholder propensities to engage in action either detrimental to or supportive of the FO were mixed.

I believe that this work makes an important contribution to the limited literature concerning stakeholder action: however, much work remains to be done in this area. Investigation of the research question using methods other than vignette-based experiments would be particularly welcome.

## APPENDIX A

### MODERATORS OF RESPONSES TO EQUITY/INEQUITY

Moderator	Theoretical Statement	Empirical Evidence
Ability and Need	<ul style="list-style-type: none"> <li>- Less able partners may be “given the benefit of the doubt” in allocation decisions (Reis &amp; Jackson, 1981).</li> <li>- Similar outcomes may be assessed differently due to consideration of one’s limitations and abilities (Leventhal &amp; Michaels, 1971).</li> <li>- A firm’s ability to pay is an important consideration in assessment of equity when the comparison other is external to the organization (Konopaske &amp; Werner, 2002).</li> <li>- Environmental munificence moderates responses to inequity in interorganizational relationships. When resources are scarce, equity norms may be replaced by more self-serving norms (Scheer et al., 2003).</li> </ul>	<ul style="list-style-type: none"> <li>- Reis and Jackson (1981) found that women with a male partner in a “female-oriented” task and men with a female partner in a “male-oriented” task favored equality norms. When the task was “sex-appropriate” both men and women favored equity norms.</li> <li>- Kuijer et al. (2001) found that in couples where one person had cancer, relationship inequities did not lead to distress if the patient suffered from serious physical impairment, but did lead to distress if the patient was not seriously impaired physically.</li> </ul>
Self-esteem	<ul style="list-style-type: none"> <li>- Need for equity is higher for those high in self-esteem than for those low in self-esteem (Brockner et al., 1987).</li> </ul>	<ul style="list-style-type: none"> <li>- Brockner et al. (1987) found that subjects high in self-esteem used a performance-based equity standard more than those low in self-esteem.</li> </ul>

**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

Attachment Style	<ul style="list-style-type: none"> <li>- High attachment anxiety biases perceptions of the exchange partner's inputs and one's own outcomes such that perception of underreward is more likely. High attachment avoidance biases perceptions of one's own inputs and the exchange partner's outcomes such that perception of overreward is more likely (Grau &amp; Doll, 2003).</li> </ul>	<ul style="list-style-type: none"> <li>- Grau &amp; Doll (2003) found (in one of three studies) that individuals low in attachment anxiety and attachment avoidance were most likely to be in equitable relationships and perceive them as equitable.</li> </ul>
Mood and Disposition	<ul style="list-style-type: none"> <li>- Mood influences a person's degree of selfishness or generosity, and so mediates self-serving or altruistic responses (O'Malley &amp; Davies, 1984).</li> <li>- Feelings of inequity may be a relatively stable predisposition (Staw &amp; Ross, 1985).</li> <li>- People high in negative affectivity feel distress and dissatisfaction even when no objective source of stress is apparent, so negative affectivity should affect responses to inequity (Hochwarter et al., 1996).</li> </ul>	<ul style="list-style-type: none"> <li>- O'Malley and Davies (1984) found that mood influenced reward allocation decisions.</li> <li>- Hochwarter et al. (1996) found that negative affectivity was negatively related to perceptions of job characteristic, supervisor, and compensation equity. Those high in negative affectivity reported feeling underrewarded with respect to intrinsic rewards, supervision, and extrinsic rewards such as pay and benefits.</li> </ul>
Gender	<ul style="list-style-type: none"> <li>- Gender moderates the relationship between equity and satisfaction (Boldero &amp; Rosenthal, 1984; Bylsma &amp; Major, 1992, 1994; Carrell &amp; Dittrich, 1978; Greenberg &amp; McCarty, 1990; Major and Deaux, 1982).</li> </ul>	<ul style="list-style-type: none"> <li>- Reis &amp; Jackson (1981) found that, in group settings, men favored equity while women favored equality</li> <li>- Lamm and Schwinger (1980) found that women in "extended contact" relationships with limited rewards considered need more in their allocation decisions than did men.</li> </ul>

**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Culture</p>	<ul style="list-style-type: none"> <li>- Preference for equity may vary with across cultures (Ring &amp; Van de Ven, 1994; Scheer, et al., 2003).</li> <li>- Prioritization of equity with respect to other distribution norms, tolerance for inequity, perceptions of what constitutes an input or outcome, means to reduce inequity, and means of measuring inputs and outcomes vary across cultures (Laufer, 2002).</li> <li>- Collectivist societies may favor communal as opposed to equity-based relationships (Clark &amp; Mills, 1979).</li> </ul>	<ul style="list-style-type: none"> <li>- VanYperen and Buunk (1991) found that American subjects were more sensitive to equity than Dutch subjects, who had a more communal orientation.</li> <li>- Scheer et al. (2003) found that, in interorganizational relationships, Dutch firms were intolerant of both underreward and overreward, while American firms tolerated overreward.</li> </ul>
<p>Attribution of the Cause of the Inequity</p>	<ul style="list-style-type: none"> <li>- If the party perceiving the inequity attributes it to causes outside the control of the other party, responses to the inequity will be moderated.</li> <li>- If the underreward is attributed to the other party and is seen as “intentional,” a response is more likely (Brounstein et al, 1980).</li> <li>- Underreward is more likely to be tolerated if it is not due to a decision made by the reward allocator (Wagstaff, 1988)</li> </ul>	<ul style="list-style-type: none"> <li>- Greenberg (1986) found that victims of unfair procedures were more likely to take action to rectify the injustice when they perceived that it was the result of an organizational policy.</li> <li>- Cropanzano and Folger (1989) found that the highest degree of resentment and feelings of unfair treatment occurred when the outcomes were based on a decision of the experimenter rather than one made by the subject himself.</li> <li>- Folkes (1984) found that when a product failure was controllable by the seller, consumers exhibited anger and a desire to retaliate.</li> </ul>

**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Similarity of the Comparison Other</p>	<ul style="list-style-type: none"> <li>- The degree of similarity between the individual and the referent should moderate the tension experienced when the person is faced with inequity (Weick, 1966).</li> </ul>	
<p>Attraction to the Comparison Other</p>	<ul style="list-style-type: none"> <li>- Attractiveness of the comparison other moderates responses to inequity: underreward in comparison to a disliked referent results in greater attempts to restore equity than underreward in comparison to a liked referent. Overreward in comparison to a disliked referent may result in satisfaction rather than guilt, while overreward in comparison to a liked other could amplify such guilt (Griffeth et al., 1989).</li> </ul>	<ul style="list-style-type: none"> <li>- Griffeth et al., (1989) found that subjects experienced more dissonance when overrewarded with respect to an attractive referent. Attraction resulted in heightened attempts at equity restoration. Underreward was more tolerable if the referent was unattractive.</li> </ul>
<p>Reaction of the Exchange Partner</p>	<ul style="list-style-type: none"> <li>- Underreward may be tolerated better if the exchange partner does not enjoy its overreward excessively (O'Malley &amp; Davies, 1984).</li> </ul>	<ul style="list-style-type: none"> <li>- O'Malley and Davies (1984) found that the dissonance of underrewarded subjects could be ameliorated by explaining that the overrewarded party was distressed by the situation.</li> </ul>
<p>Relationship History and Trust</p>	<ul style="list-style-type: none"> <li>- Perception of a history of inequity may increase the dissonance created by current inequity and reduce the effectiveness of attempts by others to compensate for the current inequity (Cosier &amp; Dalton, 1983).</li> <li>- Trust reduces the likelihood of relationship severance in the face of inequity (Ring &amp; Van de Ven, 1994).</li> </ul>	

**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Attraction to the Exchange Partner</p>	<ul style="list-style-type: none"> <li>- Inequity is less likely to be perceived in relationships characterized by mutual attraction, but, when it is perceived, the dissonance will be greater than it would have otherwise been (Weick, 1966).</li>   <li>- Responses to overreward may depend on attraction. Overreward relative to an attractive referent might result in more dissonance, while overreward relative to an unattractive other might result in satisfaction rather than guilt (Griffeth et al., 1989).</li> </ul>	<ul style="list-style-type: none"> <li>- Griffeth et al. (1989) found that overreward resulted in more dissonance when the referent was attractive than when he was unattractive.</li> </ul>
<p>Attraction to the Comparison Other</p>	<ul style="list-style-type: none"> <li>- Attractiveness of the comparison other moderates responses to inequity: underreward in comparison to a disliked referent results in greater attempts to restore equity than underreward in comparison to a liked referent. Overreward in comparison to a disliked referent may result in satisfaction rather than guilt, while overreward in comparison to a liked other could amplify such guilt (Griffeth et al., 1989).</li> </ul>	<ul style="list-style-type: none"> <li>- Griffeth et al., (1989) found that subjects experienced more dissonance when overrewarded with respect to an attractive referent. Attraction resulted in heightened attempts at equity restoration. Underreward was more tolerable if the referent was unattractive.</li> </ul>

**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Resource Dependence and the Cost of Reaction</p>	<ul style="list-style-type: none"> <li>- Responses to inequity should be moderated by the costs involved (Cosier &amp; Dalton, 1983).</li> <li>- High dependence implies that severance of the relationship is very costly (Watson et al. (1996). Likelihood of a behavioral response to inequity varies inversely with cost (Adams, 1965).</li> <li>- Resource dependence is inversely related to power. The “weak” party in an exchange relationship (i.e., the one that exhibits resource dependence) is less likely to see “objective” violations of equity by the stronger party as such. Furthermore, the powerful party may be in a favorable position to justify the inequity. Overt conflict is unlikely to occur in such situations (Kabanoff, 1991).</li> <li>- The propensity to sever a relationship negatively related to the amount of transaction-specific investments involved in it (Ring &amp; Van de Ven, 1994).</li> <li>- Behavioral responses to inequity (especially relationship severance) are less likely in customer-supplier relationships where customization and/or switching costs are high: both increase resource dependence (Alexander, 2002). Customization may also reduce behavioral responses because can increase the social aspects of the relationship (Hoffman &amp; Kelley, 2000).</li> </ul>	<ul style="list-style-type: none"> <li>- Watson et al. (1996) found that managers who were likely to be at their current jobs for another two years expressed less dissatisfaction when faced with underreward than did those that were not likely to be at their job for another two years. The former may have used cognitive rather than behavioral means to remedy inequity.</li> <li>- Hurley (1998) and Heide and John (1988) found that relationship commitment was positively related to switching costs.</li> </ul>
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**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Relationship Duration</p>	<ul style="list-style-type: none"> <li>- In longer-term relationships, a present inequity may be able to be rectified sometime in the future, which negates the need for a response (Weick, 1966).</li> <li>- Those in longer-term relationships may focus on norms that facilitate relationship maintenance (e.g., equality) as opposed to equity (Kabanoff, 1991).</li> <li>- A short duration service encounter will be more likely to be evaluated based on equity than a long-term encounter, because in the latter, the relational aspect of the encounter becomes the focus (Hoffman &amp; Kelley, 2000).</li> </ul>	<ul style="list-style-type: none"> <li>- Shapiro (1975) found that subjects who contributed more inputs than their partner but anticipated future interactions allocated rewards equally, whereas others allocated using equity norms.</li> <li>- Kahn, Lamm, and Nelson (1977) found that an allocator used equality norms when the relationship was expected to continue.</li> <li>- Folger and Martin (1986) found that subjects were more likely to react to injustice when the party that caused it is likely to be able to continue to do so.</li> <li>- Darke and Dahl (2003) found that consumers who received worse outcomes from a seller than did another customer were less dissatisfied when the other customer was a regular customer.</li> </ul>
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**APPENDIX A: MODERATORS OF RESPONSES TO EQUITY/INEQUITY (CONT'D)**

<p>Intimacy of the Relationship</p>	<ul style="list-style-type: none"> <li>- Norms of equality, rather than equity, may be used in intimate relationships (Wagstaff, 1998).</li> <li>- Severance of a relationship is less likely when there is a strong social aspect to it (Alexander, 2002).</li> <li>- In intimate relationships, underreward with respect to intrinsic outcomes may be more important than underreward with respect to extrinsic outcomes (Wilke et al., 2000).</li> <li>- “Low proximity relationships” will be more likely to be judged based on equity than will “high proximity relationships” (Hoffman &amp; Kelley, 2000).</li> <li>- Intimate relationships may be characterized by need-based norms rather than by equity norms (Leventhal, 1980; Kuijer et al., 2001).</li> <li>- Equity sought in intimate relationships may be “long-term” as opposed to “short-term” (Kuijer et al., 2001).</li> <li>- Intimate relationships may not be characterized by normal exchange principles, because parties care about one another and the relationship is more communal (Clark &amp; Mills, 1979).</li> </ul>	<ul style="list-style-type: none"> <li>- VanYperen and Buunk (1991) found that communal orientation moderated the relationship between equity and satisfaction. Equity principles only to those low in communal orientation. Those high in communal orientation were more satisfied with overreward than with underreward or equity.</li> <li>- Boldero &amp; Rosenthal (1984) found that personal contact influenced allocation decisions where reward were finite, but not where rewards were not finite.</li> </ul>
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## APPENDIX B

### EMPIRICAL EVIDENCE CONCERNING EQUITY SENSITIVITY

Study	Sample	Findings
Huseman et al. (1985)	859 managers	<ul style="list-style-type: none"> <li>- Curvilinear relationship between type of inequity and job satisfaction (in accordance with equity theory)</li> <li>- Both Bs and Es preferred overreward to underreward*</li> <li>- Underrewarded Bs were more satisfied than underrewarded ESs</li> <li>- Equitably rewarded Es were less satisfied than equitably rewarded ESs or Bs</li> </ul>
Miles et al. (1989)	519 undergraduate students	<ul style="list-style-type: none"> <li>- Bs preferred higher inputs than ESs and Es</li> <li>- Es did not exhibit a significantly different preference for outcomes*</li> <li>- Bs preferred lower O/I ratios than did ESs and Es</li> <li>- Anger thresholds differed in one of two scenarios; No significant difference in guilt thresholds</li> <li>- No significant differences between ESs and Es in seven of ten scenarios*</li> <li>- Bs worked harder for less pay</li> </ul>
King et al. (1993)	279 undergraduate students	<ul style="list-style-type: none"> <li>- Bs were more satisfied than Es in underreward conditions</li> <li>- Es were less satisfied than Bs or ESs in underreward conditions</li> <li>- Es were more satisfied than ESs in overreward conditions</li> <li>- Es were not significantly more satisfied than Bs in overreward conditions*</li> <li>- Manipulation of outcomes predicted dissatisfaction better than manipulation of inputs</li> </ul>

**APPENDIX B:  
EMPIRICAL EVIDENCE CONCERNING EQUITY SENSITIVITY (CONT'D)**

King et al. (1993)	395 bank employees	<ul style="list-style-type: none"> <li>- Bs placed more emphasis on work (an input) than Es</li> <li>- Es placed more emphasis on pay (an outcome) than Bs</li> <li>- Bs were more input-focused than ESs and Es</li> <li>- No significant difference between exchange orientation of ESs and Es*</li> </ul>
King and Hinson (1994)	266 business students	<ul style="list-style-type: none"> <li>- Equity sensitivity was not significantly related to satisfaction with negotiation outcomes.*</li> <li>Researchers suggested that situational factors may have overwhelmed the effects of equity sensitivity.</li> <li>- Bs were more relationship-oriented</li> </ul>
King and Miles (1994)	five samples	<ul style="list-style-type: none"> <li>- Equity sensitivity was positively related to perceptions of distributive justice, altruism, and social desirability (i.e., more benevolence corresponded with increases in these variables)</li> <li>- Equity sensitivity was negatively related to locus of control, non-Protestant work ethic, and Machiavellianism</li> <li>- No relationship between equity sensitivity and input versus outcome orientation.* The authors suggest the possibility that the exchange orientation measure was faulty.</li> <li>- Equity sensitivity was not related to age or education</li> </ul>
Miles et al. (1994)	2617 banking and public utility employees	<ul style="list-style-type: none"> <li>- Extrinsic, tangible outcomes were most important to Es and least important to Bs</li> <li>- Es found intrinsic outcomes less important than ESs and Bs</li> <li>- Pay was the most important outcome to Es</li> <li>- A sense of accomplishment was the most important outcome to Bs</li> <li>- Equity sensitivity was not related to ratings of the importance of extrinsic, intangible (i.e., relationship based) outcomes*</li> </ul>

**APPENDIX B:  
EMPIRICAL EVIDENCE CONCERNING EQUITY SENSITIVITY (CONT'D)**

Konovsky and Organ (1996)	630 hospital employees	<ul style="list-style-type: none"> <li>- Equity sensitivity was not related to organizational citizenship.* The researchers suggested this result may be due to range restriction on the equity sensitivity measure or the blurring of the distinction between job and citizenship behavior due to the hospital setting.</li> </ul>
Renard et al. (1997)		<ul style="list-style-type: none"> <li>- Korean subjects evinced greater entitlement than did U.S. subjects</li> <li>- Public-sector employees were more benevolent than private-sector employees</li> <li>- White and Black Americans did not differ in terms of equity sensitivity</li> </ul>
O'Neill and Mone (1998)	242 health care employees	<ul style="list-style-type: none"> <li>- Equity sensitivity was positively related to job satisfaction and organizational commitment, and negatively related to intent to leave</li> </ul>
Mueller and Clarke (1998)	Undergraduate students in six nations	<ul style="list-style-type: none"> <li>- Subjects in transitional economies exhibited heightened entitlement and diminished benevolence compared to subjects in the U.S.</li> <li>- Men exhibited entitled tendencies more than did women</li> </ul>
Mudrack et al. (1999)		<ul style="list-style-type: none"> <li>- Es exhibited higher Machiavellianism than others</li> <li>- Es regarded ethically questionable behaviors as more acceptable than did Bs</li> <li>- Bs were more likely than Es to disagree with Friedmansqe view of corporate social responsibility</li> <li>- Equity sensitivity was significantly related to locus of control</li> <li>- Some evidence that benevolence was positively related to the Protestant work ethic</li> </ul>
Fok et al. (2000)	85 accounting professionals	<ul style="list-style-type: none"> <li>- Benevolence was positively related to growth need strength, willingness to engage in organizational citizenship behaviors, and satisfaction with the organization</li> </ul>
Sauley and Bedeian (2000)		<ul style="list-style-type: none"> <li>- Entitlement was associated with an external locus of control</li> <li>- Benevolence was associated with pay satisfaction and overall satisfaction</li> </ul>

**APPENDIX B:  
EMPIRICAL EVIDENCE CONCERNING EQUITY SENSITIVITY (CONT'D)**

Wheeler (2001)	244 management students	<ul style="list-style-type: none"> <li>- Subjects in collectivist, feminine, high uncertainty avoidance, and high power distance cultures had benevolent tendencies</li> <li>- Women tended toward benevolence, while men tended toward entitlement</li> </ul>
Kickul and Lester (2001)	183 MBA students	<ul style="list-style-type: none"> <li>- Results generally supported the hypothesis that Es respond more negatively to psychological contract breaches than do Bs when the outcome is extrinsic, while Bs respond more negatively than Es when the breach concerns intrinsic outcomes.</li> <li>- The interaction</li> </ul>
Bing and Burroughs (2001)	237 members of the National Guard and 206 camp counselors	<ul style="list-style-type: none"> <li>- Equity sensitivity was positively related to performance, agreeableness, and conscientiousness</li> </ul>
Allen and White (2002)	240 undergraduate students	<ul style="list-style-type: none"> <li>- Underrewarded Es evinced greater intent to reduce work inputs than did Bs and ESs</li> <li>- Underrewarded Es were more likely than Bs to make a comparison other work harder (Scenario 2 only), and more likely to attempt to be transferred</li> <li>- Underrewarded Bs were less likely than Es and ESs to attempt to lower the outcomes of a comparison other, and were less likely to leave the organization (Scenario 2 only)</li> <li>- Differential responses to underreward across types were most apparent when the response was behavioral rather than cognitive</li> </ul>
Yamaguchi (2003)	253 students	<ul style="list-style-type: none"> <li>- Entitlement was positively related to need for power</li> <li>- Type of need (self-achievement versus affiliation) mediated the relationship between dispositions and equity sensitivity</li> <li>- Self-achievement and affiliation needs were positively related to both entitlement and benevolence</li> </ul>
Raja et al. (2004)	197 public- and private-sector employees	<ul style="list-style-type: none"> <li>- Entitleds tended to form transactions rather than relationships in their psychological contracts</li> <li>- Equity sensitivity types did not differ in the likelihood of perceiving a psychological contract breach</li> </ul>

*\* Result contradicts predictions derived from theory concerning equity sensitivity.*

## APPENDIX C

### EQUITY SENSITIVITY INSTRUMENT AND ADAPTATION

#### Equity Sensitivity Instrument (Huseman, Hatfield & Miles, 1993)

The questions below ask what you'd like for your relationship to be with any organization for which you might work. On each question, divide 10 points between the two choices (choice A and choice B) by giving the most points to the choice that is most like you and the fewest points to the choice that is least like you. You can, if you'd like, give the same number of points to both choices (for example, 5 points to choice A and 5 points to choice B). And you can use zeros if you'd like.

In any organization I might work for:

1. It would be more important for me to:
  - a. \_\_\_ Get from the organization
  - b. \_\_\_ Give to the organization
  
2. It would be more important for me to:
  - a. \_\_\_ Help others
  - b. \_\_\_ Watch out for my own good
  
3. I would be more concerned about:
  - a. \_\_\_ What I received from the organization
  - b. \_\_\_ What I contributed to the organization
  
4. The hard work I would do should:
  - a. \_\_\_ Benefit the organization
  - b. \_\_\_ Benefit me
  
5. My personal philosophy in dealing with the organization would be:
  - a. \_\_\_ If I don't look out for myself, nobody else will
  - b. \_\_\_ It's better for me to give than to receive

## APPENDIX C: EQUITY SENSITIVITY INSTRUMENT AND ADAPTATION (CONT'D)

### Adapted Equity Sensitivity Instrument

The questions below ask you about your preferences with respect to relationships that you have with other people, or with groups or organizations (like businesses). For each question, please *divide* 10 points between the two choices (Choice A and Choice B) by giving the *most* points to the choice that is *most* like you and the *fewest* points to the choice that is *least* like you. For example, for one question I might give 7 points to Choice A and 3 points to Choice B if Choice A is more like me than Choice B is. You may use any numbers from zero to 10.

Please *be sure* to allocate *all 10 points* per question between each pair of possible responses.

---

#### **In any relationship that I might have with another person, or with a group or an organization:**

1. It is more important for me to:
  - a. \_\_\_\_\_ Get from the relationship
  - b. \_\_\_\_\_ Give to the relationship
  
2. It is more important for me to:
  - a. \_\_\_\_\_ Help others
  - b. \_\_\_\_\_ Watch out for my own good
  
3. I am more concerned about:
  - a. \_\_\_\_\_ What I receive from the relationship
  - b. \_\_\_\_\_ What I contribute to the relationship
  
4. Any relationship I might have with another person, or with a group or organization, should:
  - a. \_\_\_\_\_ Benefit the other party in the relationship
  - b. \_\_\_\_\_ Benefit me
  
5. My personal philosophy in dealing with other people, groups or organizations is:
  - a. \_\_\_\_\_ If I don't look out for myself, nobody else will
  - b. \_\_\_\_\_ It's better for me to give than to receive



**APPENDIX D**

**VIGNETTES**

# INSTRUCTIONS

Thank you very much for agreeing to participate in this research. This package contains two scenarios describing two different situations. Please read each scenario carefully and answer the questions that follow.

The package also contains a questionnaire that asks you about the type of relationships you prefer with other people, or with groups or organizations that you deal with. Finally, it contains a questionnaire that asks you basic questions about yourself.

It is expected that the whole process will take you about 20 minutes.

Please keep in mind that **there are no right or wrong answers** to any of the questions in this package. I am just looking for your opinions based on the scenarios presented.

Please also be assured that your responses will be kept completely confidential and only aggregate information will be published. In order to keep your responses anonymous, please **do not** write your name anywhere on this package.

If you have any questions or concerns regarding this study, please feel free to contact me at your convenience:

Sefa Hayibor

Email: [sefa.hayibor@smu.ca](mailto:sefa.hayibor@smu.ca)

Phone: 902-491-6293

**THANK YOU SO MUCH FOR YOUR  
PARTICIPATION!  
IT IS GREATLY APPRECIATED.**

## PART A

1ULL

You and Person B are undergraduate students. Both of you are juniors, and are excellent students. It is very important to both of you that you earn money to support yourselves while attending university, as you can barely afford the tuition. To that end, both of you have been working as student employees, doing jobs at various research centers on campus. Your jobs are found through the University's Student Employment Office. This Office helps students find work at school and monitors the treatment of student employees. Though the level of pay sometimes varies from job to job, you and Person B are typically paid the same wage, and you both perform your duties adequately.

*The Center for Research in Organizational Behavior* (known as *the Center*, for short) at your university's Faculty of Business hires both you and Person B to do some coding of questionnaires: interpreting responses and inputting codes into a spreadsheet. There is plenty of work for both of you.

You and Person B each code about eight questionnaires per hour. Your supervisor at *the Center* tells you that you and Person B are both doing well and seem to be equal in terms of accuracy and speed.

After a few weeks, Person B is reassigned to the *Institute for the Study of Strategic Management* (also known as the *ISSM*), another research organization within the Faculty of Business. Person B's new job responsibilities at the *ISSM* are the same as her old responsibilities at *the Center* – coding questionnaires.

The next week, you ask Person B how things are at her new job. "The work is the same," she responds, "but I'm making \$15.00 an hour now instead of \$9.00."

You decide to keep an eye on the situation. The same circumstances persist. Person B's pay at the *ISSM* stays at \$15.00 per hour, while your pay at *the Center* remains at \$9.00 per hour. You confirm that other student employees in your position at *the Center* also make \$9.00 per hour.

On occasion, student employees at various research centers throughout the University have used various means to try to obtain pay increases from their respective employers. They have, among other things, 1) complained to their superiors and to the Student Employment Office, 2) attempted to organize a union or attempted to join existing unions, and 3) organized impromptu "strikes," wherein they temporarily stop reporting for work. Without exception, these attempts have been unsuccessful in bringing about pay raises.

University by-laws prevent supervisors of student employees from retaliating against employees who take such actions.

Administrators at the *ISSM* (where Person B is now employed) have told you that they will **not** be hiring any more student employees this year. However, there are many other work opportunities on campus or in the community that would offer you pay similar to or higher than what you make now.

The following questions ask you how you would respond to the situation described above. In answering the questions, **please keep in mind how you are being treated compared to how Person B is being treated.** After considering the above situation, please **circle the appropriate number** to indicate the likelihood that you would engage in each of the activities listed. In each case, **'1' indicates you are extremely unlikely to undertake the activity, while '7' indicates that you are extremely likely to undertake the activity.** You may circle any number from 1 to 7.

**Please consider each question independently.** For example, regarding Questions 1 and 2, the likelihood that you would speak to your supervisor **should not** be dependent on the likelihood that you would speak to administrators. Put another way, **you should treat each question as if the action it deals with is the only option available to you in this situation.**

**\*\*\* Unless otherwise noted, please assume that all of the actions identified in the questions could be undertaken at very little cost to you in terms of money, effort, time, or anything else. \*\*\***

**Important things to remember:**

- **Pay is very important to you**
- **You now make much less money than Person B**
- **Activities aimed at increasing pay where you work have never been effective in bringing about pay raises**
- **Given the job market, you should easily be able to find a different job that pays you at least as much as what you make now**

**In the above situation, what is the likelihood that you would...**

**1. Complain to your supervisor at *the Center* in an attempt to get a pay raise for yourself and other employees at *the Center*?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

**2. Complain to administrators at the Student Employee Office in an attempt to get a pay raise for yourself and other employees at *the Center*?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

**3. Do nothing about the situation?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

***In the above situation, what is the likelihood that you would...***

**4.** Put more effort into your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**5.** Put less effort into your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**6.** Purposely commit coding errors in your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**7.** Call in sick to *the Center* the next time you want a day off?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**8.** Attempt to organize a strike by student employees at *the Center*? (This will take about 12 hours and will cost you a day's pay. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**9.** Participate in a strike organized by other student employees at *the Center*? (This will take 6 hours and will cost you a day's pay. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**10.** Try to reduce your workload at the Center (while working the same number of hours)?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

***In the above situation, what is the likelihood that you would...***

**11.** Start trying to find another job?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**12.** Quit your job at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**13.** Accept the idea that your work at *the Center* is only worth \$9.00 per hour?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**14.** Attempt to organize a union drive by student employees at *the Center*? (This will take about 12 hours. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**15.** Vote in favor of joining an existing union of student employees?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**16.** Advise others to seek employment at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**17.** *In the above situation*, how important to you is your hourly wage?

Not At All Important							Extremely Important
1	2	3	4	5	6		7

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## **Part B**

1ULL

You and Person C are both freelance consultants who take on various contracts with small businesses in your community. You are not associated with Person C in any way except that you both have recently been hired to do some consulting work for a local business. The two of you are temporarily sharing a small office space in the building of the business you're working for. You are working on different parts of the same project, so you do not feel competitive with or threatened by Person C in any way.

To aid in your work, you purchase a new laptop computer from Blu-Chip, an electronics retailer in your community. Person C is also in the market for a new computer, and so also buys a laptop from Blu-Chip. They are both "house brand" models, built by Blu-Chip from Blu-Chip components as well as components manufactured by other companies. Your computer is heavily customized to suit the particular type of work you do. You each pay about \$2000 for your new computers.

The Blu-Chip sales associate whom you deal with advises you to purchase a three-year Service Agreement to cover maintenance and repair of your laptop. The Service Agreement states that Blu-Chip will repair or replace your computer (at no charge) if it has problems due to defective parts, "normal wear and tear," or certain other reasons. The Service Agreement costs \$300.

The work you do on the computer is your only source of income; because of this, and its heavily customized nature, your new laptop is a critical resource to you. You therefore decide to purchase the Service Agreement. Person C also sees his laptop as a critical resource, so he purchases the same Service Agreement.

Several months after your purchase, you and Person C leave your laptops in your shared office overnight, and an unfortunate accident occurs. The sprinkler system in the part of the building where your office is located is triggered during the night, which results in both of your computers being showered with water. The next day you both find that your computers will not start up. Unfortunately, because you and Person C are independent contractors, the insurance of the business for which you are both working will not cover the repair or replacement of your computers. Neither you nor Person C has any other sort of insurance that will cover repair or replacement.

The next day, Person C takes his laptop Blu-Chip. He explains the unfortunate incident, and asks Blu-Chip service representatives to see what is wrong with his computer.

Soon Person C is contacted by Blu-Chip. Unfortunately, the water seeped through the keyboard and the computer's CPU (central processing unit) is "fried." He will need a new CPU. However, under the terms of his Service Agreement, Blu-Chip will replace the CPU without charge. In fact, because the CPU in his computer is now out of production, it will be replaced with a newer, faster CPU. Person C soon has his computer back, in working order.



A few days later, you take your computer back to Blu-Chip. You explain what happened, and ask service representatives to see what is wrong with it. Not surprisingly, your laptop has the same problem as Person C's had – the CPU is "fried." Having heard of Person C's experience with Blu-Chip, you attempt to confirm that your Service Agreement will cover the replacement of your CPU. To your dismay, you are told that Blu-Chip's Service Agreement will not cover the necessary repairs. You explain how Person C was provided with a replacement processor, but Blu-Chip representatives maintain their position. Unfortunately, getting a new CPU will cost you close to \$500.

In the past, customers have taken a variety of actions to attempt to get their desires met by Blu-Chip. Among other things, they have complained to Blu-Chip management, sued Blu-Chip in small claims court or taken other legal action, posted the story of their concerns with Blu-Chip on the internet, filed complaints about Blu-Chip with the Better Business Bureau, and attempted to organize boycotts of Blu-Chip among their friends or the general public. However, without exception, these actions have failed to convince Blu-Chip to fulfill the customer's desires.

It would be easy for you to find another retailer that can provide you with a suitable CPU for about the same price that Blu-Chip will charge you.

The following questions ask you how you would respond to the situation described above. In answering the questions, **please keep in mind how you are being treated compared to how Person C is being treated.** After considering the above situation, please **circle the appropriate number** to indicate the likelihood that you would engage in each of the activities listed. In each case, **'1' indicates you are extremely unlikely to undertake the activity, while '7' indicates that you are extremely likely to undertake the activity.** You may circle any number from 1 to 7.

**Please consider each question independently.** For example, your response to Question 2 should not be based on your response to Question 1. Put another way, **you should treat each question as if the action it deals with is the only option available to you in this situation.**

**\*\*\* Unless otherwise noted, please assume that all of the actions identified in the questions could be undertaken at very little cost to you in terms of time, money, effort, or anything else.\*\*\***

---

**Important things to remember:**

- **Having your computer work properly is extremely important to you**
  - **Blu-Chip repaired Person C's computer at no cost, but did not repair yours**
  - **Customers' activities aimed at getting Blu-Chip to meet their desires in situations like this (e.g., complaining, organizing a boycott, taking legal action) have never been effective**
  - **You could easily find another retailer from whom you could purchase a new CPU**
- 

**In the above situation, what is the likelihood that you would...**

1. Buy more products from Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

2. Make a point of shopping at Blu-Chip in the future?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

3. Advise others to shop at Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

***In the above situation, what is the likelihood that you would...***

**4.** Advise others ***not*** to shop at Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**5.** Provide a ***positive*** testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would ***not*** be paid for your testimonial.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**6.** Refuse to shop at Blu-Chip in the future?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**7.** Post negative information concerning Blu-Chip on the internet?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**8.** Make false negative statements condemning Blu-Chip on the internet?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**9.** Attempt to organize a boycott of Blu-Chip among your friends and associates? (This will take 3 hours of your time. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

***In the above situation, what is the likelihood that you would...***

**10.** Attempt to organize a boycott of Blu-Chip among the general public? (This will take 8 hours of your time. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**11.** Participate in a boycott of Blu-Chip organized by others?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**12.** Steal or vandalize Blu-Chip property if you knew you wouldn't get caught?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**13.** Complain about Blu-Chip to the Better Business Bureau?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**14.** Take legal action against Blu-Chip? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**15.** Complain to Blu-Chip management (e.g., in person, or by phone, mail, or email)?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

***In the above situation, what is the likelihood that you would...***

**16.** Sue Blu-Chip in small claims court? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**17.** Do nothing about the situation?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**18.** *In the above situation*, how important is it for you to have a working computer?

Not At All Important							Extremely Important
1	2	3	4	5	6		7

---

**19.** *In the above situation*, what is the likelihood that taking action (e.g., complaining, organizing a boycott, etc.) in an attempt to get Blu-Chip to fix your computer at no cost would, in fact, result in Blu-Chip doing so?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**20.** *In the above situation*, what is the likelihood of you being able to obtain a replacement CPU from a retailer other than Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**21.** *In the above situation*, do you feel under-rewarded or overrewarded when you compare yourself with Person C?

Extremely Under-rewarded			Fairly Rewarded				Extremely Overrewarded
1	2	3	4	5	6		7

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## **PART A**

7OHH

You and Person B are undergraduate students. Both of you are juniors, and are excellent students. It is very important to both of you that you earn money to support yourselves while attending university, as you can barely afford the tuition. To that end, both of you have been working as student employees, doing jobs at various research centers on campus. Your jobs are found through the University's Student Employment Office. This Office helps students find work at school and monitors the treatment of student employees. Though the level of pay sometimes varies from job to job, you and Person B are typically paid the same wage, and you both perform your duties adequately.

*The Center for Research in Organizational Behavior* (known as *the Center*, for short) at your university's Faculty of Business hires both you and Person B to do some coding of questionnaires: interpreting responses and inputting codes into a spreadsheet. There is plenty of work for both of you.

You and Person B each code about eight questionnaires per hour. Your supervisor at *the Center* tells you that you and Person B are both doing well and seem to be equal in terms of accuracy and speed.

After a few weeks, Person B is reassigned to the *Institute for the Study of Strategic Management* (also known as the *ISSM*), another research organization within the Faculty of Business. Person B's new job responsibilities at the *ISSM* are the same as her old responsibilities at *the Center* – coding questionnaires.

The next week, you ask Person B how things are at her new job. "The work is the same," she responds, "Unfortunately, I'm only making \$9.00 an hour now instead of \$15.00."

You decide to keep an eye on the situation. The same circumstances persist. Person B's pay at the *ISSM* stays at \$9.00 per hour, while your pay at *the Center* remains at \$15.00 per hour.

On occasion, student employees at various research centers throughout the University have used various means to try to obtain pay increases from their respective employers. They have, among other things, 1) complained to their superiors and to the Student Employment Office, 2) attempted to organize a union or attempted to join existing unions, and 3) organized impromptu "strikes," wherein they temporarily stop reporting for work. Very often, these attempts have been successful in bringing about pay raises.

University by-laws prevent supervisors of student employees from retaliating against employees who take such actions.

There are *very* few other work opportunities on campus or in the community that would offer you pay similar to what you make now.

The following questions ask you how you would respond to the situation described above. In answering the questions, **please keep in mind how you are being treated compared to how Person B is being treated.** After considering the above situation, please **circle the appropriate number** to indicate the likelihood that you would engage in each of the activities listed. In each case, **'1' indicates you are extremely unlikely to undertake the activity, while '7' indicates that you are extremely likely to undertake the activity.** You may circle any number from 1 to 7.

**Please consider each question independently.** For example, regarding Questions 1 and 2, the likelihood that you would speak to your supervisor **should not** be dependent on the likelihood that you would speak to administrators. Put another way, **you should treat each question as if the action it deals with is the only option available to you in this situation.**

**\*\*\* Unless otherwise noted, please assume that all of the actions identified in the questions could be undertaken at very little cost to you in terms of time, money, effort, or anything else.\*\*\***

**Important things to remember:**

- **Pay is very important to you**
- **You now make much more money than Person B**
- **Activities aimed at increasing pay where you work have very often been effective in bringing about pay raises**
- **Given the job market, it would be extremely difficult for you to find a different job that pays you as much as what you make now**

**In the above situation, what is the likelihood that you would...**

**1. Complain to your supervisor at *the Center* in an attempt to get a pay raise for yourself and other employees at *the Center*?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

**2. Complain to administrators at the Student Employee Office in an attempt to get a pay raise for yourself and other employees at *the Center*?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

**3. Do nothing about the situation?**

Extremely Unlikely								Extremely Likely
1	2	3	4	5	6	7		7

***In the above situation, what is the likelihood that you would...***

**4.** Put more effort into your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**5.** Put less effort into your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**6.** Purposely commit coding errors in your work at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**7.** Call in sick to *the Center* the next time you want a day off?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**8.** Attempt to organize a strike by student employees at *the Center*? (This will take about 12 hours and will cost you a day's pay. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**9.** Participate in a strike organized by other student employees at *the Center*? (This will take 6 hours and will cost you a day's pay. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**10.** Try to reduce your workload at the Center (while working the same number of hours)?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---



***In the above situation, what is the likelihood that you would...***

**11. Start trying to find another job?**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**12. Quit your job at *the Center*?**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**13. Accept the idea that your work at *the Center* is worth \$15.00 per hour?**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**14. Attempt to organize a union drive by student employees at *the Center*? (This will take about 12 hours. There are no other costs associated with this action.)**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**15. Vote in favor of joining an existing union of student employees?**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**16. Advise others to seek employment at *the Center*?**

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**17. *In the above situation*, how important to you is your hourly wage?**

Not At All Important							Extremely Important
1	2	3	4	5	6		7

---

**18. In the above situation,** what is the likelihood that taking action in an attempt to bring about a pay increase where you currently work will, in fact, result in a pay increase?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**19. In the above situation,** if you tried to, what would be the likelihood of you finding a different job that pays as much as your current job at *the Center*?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**20. In the above situation,** do you feel under-rewarded or overrewarded compared to Person B?

Extremely Under-rewarded			Fairly Rewarded				Extremely Overrewarded
1	2	3	4	5	6		7

---

Your supervisors have asked you to work a few extra hours at *the Center* one day next week to complete the coding of a specific batch of questionnaires that they need finished soon. Under the Guidelines of the Student Employment Office, you are only allowed to be paid for a certain number of hours of work at *the Center* every week, so *you would not make any additional money by complying* – you would essentially be volunteering in order to help out your supervisors and *the Center*. The Guidelines of the Student Employment Office also stipulate that you are **not** required to comply with requests like this and your supervisors assure you that there will be no repercussions if you choose not to.

**21.** What is the likelihood that you will agree to work extended hours at *the Center* one day next week, as your supervisors have asked?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

## **Part B**

7OHH

You and Person C are both freelance consultants who take on various contracts with small businesses in your community. You are not associated with Person C in any way except that you both have recently been hired to do some consulting work for a local business. The two of you are temporarily sharing a small office space in the building of the business you're working for. You are working on different parts of the same project, so you do not feel competitive with or threatened by Person C in any way.

To aid in your work, you purchase a new laptop computer from Blu-Chip, an electronics retailer in your community. Person C is also in the market for a new computer, and so also buys a laptop from Blu-Chip. They are both "house brand" models, built by Blu-Chip from Blu-Chip components as well as components manufactured by other companies. Your computer is heavily customized to suit the particular type of work you do. You each pay about \$2000 for your new computers.

The Blu-Chip sales associate whom you deal with advises you to purchase a three-year Service Agreement to cover maintenance and repair of your laptop. The Service Agreement states that Blu-Chip will repair or replace your computer (at no charge) if it has problems due to defective parts, "normal wear and tear," or certain other reasons. The Service Agreement costs \$300.

The work you do on the computer is your only source of income; because of this, and its heavily customized nature, your new laptop is a critical resource to you. You therefore decide to purchase the Service Agreement. Person C also sees his laptop as a critical resource, so he purchases the same Service Agreement.

Several months after your purchase, you and Person C leave your laptops in your shared office overnight, and an unfortunate accident occurs. The sprinkler system in the part of the building where your office is located is triggered during the night, which results in both of your computers being showered with water. The next day you both find that your computers will not start up. Unfortunately, because you and Person C are independent contractors, the insurance of the business for which you are both working will not cover the repair or replacement of your computers. Neither you nor Person C has any other sort of insurance that will cover repair or replacement.

The next day, Person C takes his laptop Blu-Chip. He explains the unfortunate incident, and asks Blu-Chip service representatives to see what is wrong with his computer.

Soon Person C is contacted by Blu-Chip. Unfortunately, the water seeped through the keyboard and the computer's CPU (central processing unit) is "fried." He will need a new CPU. To his dismay, he is told that Blu-Chip's Service Agreement will not cover the necessary repairs, because the problem is not due to defective parts or normal wear and tear. Getting a new CPU will cost him close to \$500.

A few days later, you take your computer back to Blu-Chip. You explain what happened, and ask service representatives to see what is wrong with it. Not surprisingly, your laptop has the same problem as Person C's had – the CPU is “fried.” Despite Blu-Chip's refusal to repair Person C's computer under the terms of his Service Agreement, you ask if, by any chance, your Service Agreement will cover the repair of your computer. You are pleasantly surprised to be told that, though the necessary repairs are **not** technically covered by your Service Agreement, Blu-Chip will make an exception in your case, and will make the repairs for free. Better still, because the CPU in your computer is now no longer being produced, it will be replaced with a newer, faster CPU.

You ask what type of CPU will be in your new computer. You are told that it will be a B5. You know that a still faster CPU that you will eventually need - the B6 - is available, and so ask if you can have a B6 put in your computer, since it would be ideal for the work you do. Blu-Chip representatives refuse this request. However, they inform you that you could purchase a B6 for about \$600.

In the past, customers have taken a variety of actions to attempt to get their desires met by Blu-Chip. Among other things, they have complained to Blu-Chip management, sued Blu-Chip in small claims court or taken other legal action, posted the story of their concerns with Blu-Chip on the internet, filed complaints about Blu-Chip with the Better Business Bureau, and attempted to organize boycotts of Blu-Chip among their friends or the general public. Very often, these actions have convinced Blu-Chip to fulfill the customer's desires.

You are certain that you will eventually upgrade to a B6. Blu-Chip manufactures the B6, so it is the only place you will be able to purchase one.

The following questions ask you how you would respond to the situation described above. In answering the questions, **please keep in mind how you are being treated compared to how Person C is being treated.** After considering the above situation, please **circle the appropriate number** to indicate the likelihood that you would engage in each of the activities listed. In each case, **'1' indicates you are extremely unlikely to undertake the activity, while '7' indicates that you are extremely likely to undertake the activity.** You may circle any number from 1 to 7.

**Please consider each question independently.** For example, your response to Question 2 should not be based on your response to Question 1. Put another way, **you should treat each question as if the action it deals with is the only option available to you in this situation.**

**\*\*\* Unless otherwise noted, please assume that all of the actions identified in the questions could be undertaken at very little cost to you in terms of time, money, effort, or anything else.\*\*\***

**Important things to remember:**

- **Having your computer work properly is extremely important to you**
- **Blu-Chip did not repair Person C's computer for free, but they did repair yours**
- **Customers' activities aimed at getting Blu-Chip to meet their desires in situations like this (e.g., complaining, organizing a boycott, taking legal action) have very often been effective**
- **You will not be able to buy a B6 anywhere except at Blu-Chip**

**In the above situation, what is the likelihood that you would...**

1. Buy more products from Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

2. Make a point of shopping at Blu-Chip in the future?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

3. Advise others to shop at Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

***In the above situation, what is the likelihood that you would...***

**4.** Advise others ***not*** to shop at Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

**5.** Provide a ***positive*** testimonial about your experience at Blu-Chip for use in a Blu-Chip advertisement? (You would ***not*** be paid for your testimonial.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

**6.** Refuse to shop at Blu-Chip in the future?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

**7.** Post negative information concerning Blu-Chip on the internet?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

**8.** Make false negative statements condemning Blu-Chip on the internet?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

**9.** Attempt to organize a boycott of Blu-Chip among your friends and associates? (This will take 3 hours of your time. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6	7	

---

***In the above situation, what is the likelihood that you would...***

**10.** Attempt to organize a boycott of Blu-Chip among the general public? (This will take 8 hours of your time. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**11.** Participate in a boycott of Blu-Chip organized by others?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**12.** Steal or vandalize Blu-Chip property if you knew you wouldn't get caught?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**13.** Complain about Blu-Chip to the Better Business Bureau?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**14.** Take legal action against Blu-Chip? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**15.** Complain to Blu-Chip management (e.g., in person, or by phone, mail, or email)?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

***In the above situation, what is the likelihood that you would...***

**16.** Sue Blu-Chip in small claims court? (This will take 5 hours of your time and will cost \$40. There are no other costs associated with this action.)

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**17.** Do nothing about the situation?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**18.** *In the above situation*, how important is it for you to have a working computer?

Not At All Important							Extremely Important
1	2	3	4	5	6		7

---

**19.** *In the above situation*, what is the likelihood that taking action (e.g., complaining, organizing a boycott, etc.) in an attempt to get Blu-Chip to fix your computer at no cost would, in fact, result in Blu-Chip doing so?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**20.** *In the above situation*, what is the likelihood of you being able to obtain a replacement CPU from a retailer other than Blu-Chip?

Extremely Unlikely							Extremely Likely
1	2	3	4	5	6		7

---

**21.** *In the above situation*, do you feel under-rewarded or overrewarded when you compare yourself with Person C?

Extremely Under-rewarded			Fairly Rewarded				Extremely Overrewarded
1	2	3	4	5	6		7

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