



# Employee perspectives on individualized pay

## Attitudes and fairness perceptions

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To my daughter Danielle –

An endless source of joy and  
my reason for everything



# Abstract

The use of various types of individualized pay setting has increased dramatically in Sweden. In order for individualized pay to work as an incentive, the pay system has to be perceived as fair. This thesis focuses on the various subjective perceptions that arise in relation to individualized pay setting, since such perceptions may have consequences for employee attitudes and behavior. Using survey data from Swedish human service workers (Study I and II) as well as other public employees (Study III), the general aim was to shed more light on employees' pay attitudes and fairness perceptions in connection with individualized pay setting. Study I examined some of the explanatory factors behind employee pay attitudes. The results showed that perceiving a clear connection between work results and pay, and perceiving a sound working climate, were both related to more positive attitudes towards the pay distribution process. Study II examined factors potentially associated with pay-related justice perceptions. The results demonstrated that perceptions of having sufficient feedback, proper information on pay criteria, gender equality, and lower workloads were connected with more favorable views of pay justice. Pay justice perceptions, in turn, appeared only to be marginally connected with employees' work-related attitudes and behavior. Study III investigated whether women's and men's perceptions of the individualized pay-setting process differed. The results showed that both genders had a similar awareness of the organizational policies and goals. The women, however, reported much lower levels of pay-related gender equality than the men and perceived that men, overall, benefited more from individualized pay setting. In conclusion, employees' perceptions of a well-functioning working climate, apparent links between work effort and pay, as well as perceived equal opportunities contribute to individualized pay systems being viewed as more fair.

**Keywords:** pay-for-performance, fairness, pay attitudes, gender differences, equal opportunities, pay system, work climate, justice perceptions, pay setting.



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Teresia Stråberg  
Stockholm, April 2010

# List of publications

This thesis is based on the following studies:

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- II            Andersson-Stråberg, T., Sverke, M., & Hellgren, J. (2007). Perceptions of justice in connection with individualized pay setting. *Economic & Industrial Democracy*, 28, 431-464.

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# Introduction

There are many reasons why people work. Work provides an income, it is activating and stimulating, a source of social interaction, and it gives structure to the day (Warr, 2007). It is the promise of external (e.g., pay) and internal (e.g., satisfaction) rewards that motivates nearly everyone to participate in the labor force (Jahoda, 1982). What people earn in pay greatly impacts their lifestyles. It affects their living standards, access to education, type of residence, and, in relation to work, it can also affect their choice of employer, work pace, and degree of motivation (Pfeffer, 1997). Pay is also something that can be utilized by employers, who may use it to motivate their current personnel, or use it as a means of attracting new and competent employees who have sought-after skills and knowledge (Katzell & Thomson, 1990).

Sweden's economic development has mirrored that of other industrial countries. The Swedish pay negotiation system is more strongly centralized than that of many other countries, with collective agreements regulating both pay levels and pay raises (Bender & Elliot, 2003). This centralization is rooted in the close cooperation that existed among the actors in the labor market (from the so-called Saltsjöbaden's agreement), which resulted in there being little business-related conflict during the greater part of the twentieth century (Magnusson, 1999). Historically, the development of industrial countries began with the introduction of factories, which soon after utilized mass production techniques, and has gradually progressed until the relatively recent introduction of significantly more advanced technology in the form of computers (Dicken, 1998). This has led to a great decline for the traditional industrial sector in recent decades, as a gradual transformation from an industrial society to a more post-industrial society is taking place (Ester, Halman, & de Moor, 1994). Since the 1970s, the service sector has increased considerably, especially within the areas of communication, service, trade, education, and healthcare (Grant & Parker, 2009; Magnusson, 1999). It is not only where people work that has changed, but also the nature of work itself; it is now more flexible, complex, and knowledge-demanding than it was only a couple of decades ago, which has, in turn, led to more specific and individual-based work tasks (Ferlie, Ashburner, Fitzgerald, & Pettigrew, 1996). It is not only the demands placed on employees' abilities to learn and adjust that have become greater, as the employers have had to face new challenges as well. Since work is often carried out independently,

supervisors usually do not have full insight into, or knowledge about, what their employees are doing (Oldham & Hackman, 2010).

Alongside these changes in the circumstances surrounding work a distinct trend has emerged over the last twenty-five years in regard to pay setting – known as individualized pay. Compared to earlier pay systems in which employees' pay raises were distributed automatically according to such criteria as their tenure or seniority (Doherty & Nord, 2001), with individualized pay, pay raises are differentiated and based on individuals' work performances. Individualized pay is meant to allow employees to have more control over their potential pay growth by enabling them to, for example, alter their work performance, which, at least theoretically, could give them a greater degree of influence over their pay raises as compared to other pay systems. Usually, pay raises occur after an evaluation of the employee's work-related performance, based on previously determined criteria. Typically, the results of this evaluation are discussed during a regularly scheduled performance review, in which issues of pay raises and performance are discussed between the pay-setting supervisor and the employee (Milliman, Nason, Zhu, & De Cieri, 2002; Pfeffer, 1997). Other forms of individualized pay may include bonuses, stock options, piece-rate wages, profit sharing, etc. According to Sweden's National Mediation Office (2008), the pay-setting processes for more than half of all employees include some degree of involvement at the local level, and this is believed to be a trend that will continue to grow over time and encompass an increasing range of occupational groups.

The use of individualized pay has been a topic of interest for many of the larger Swedish union organizations (Wallenberg, 2000). This has led to pay criteria being outlined in central agreements and most associations recommend that pay setting should occur locally and individually. The amount put aside for individual pay raises are however limited. Local pay setting is presumed to provide a clearer connection between employees' work performance, their prospects for pay growth, and the organization's profitability.

Generally, among labor market parties as well as employees, there is an expectation that individualized pay will be a profitable type of pay system now and in the future. Employers hope that it will spur on their employees by increasing their motivation and performance (Lawler, 1991; Pfeffer, 1997). The employees, on the other hand, are more likely interested in the individual benefits, since there could be a greater opportunity for them to excel and earn more rewards (Harris, Anseel, & Leivens, 2008). While such benefits are appealing, one has to wonder if the expectations placed on the individualized pay system are indeed realistic. There are in fact a number of reasons to doubt that such a pay system could actually function as intended, and no firm research support has been found for the notion that individualized pay increases employee productivity (Pfeffer & Sutton, 2006)

or employee motivation (OECD, 2003). There are even strong concerns that individualized pay setting will lead to increased competitiveness amongst employees and thus hinder cooperation, which in turn would likely hamper productivity (Kohn, 2001).

One of the major differences with individualized pay setting in comparison to traditional pay systems is that it gives employers more leeway in which to differentiate the initial salaries of employees (which is essentially the starting point for employees' future pay growth) (Gerhart & Rynes, 1991). This is followed by pay raises that are individually based according to each employee's work performance. In other words, it is the starting pay and the continued pay growth that are governed by individual factors. The portion of one's pay that is derived from individual accomplishments rarely comprises more than a few percentage points of most employees' salaries (OECD, 2003). This means that among individual employees the differences in the financial benefits of such individualized raises are rather marginal, and that the raise is, rather, more of a symbol of how well an individual is succeeding and how satisfied the supervisors and organization are with the individual's work efforts. Although the financial pay-raise differences may be slight, mistrust, anxiety, and jealousy can still emerge from the situation if employees end up wondering why someone else received more of a raise than themselves. What makes the differences in pay raises among individuals so critical is the individuals' interpretations of the reasons behind pay-raise decisions (Lawler, 1971) as, for instance, a co-worker's raise could be seen as indicating that the supervisor values that co-worker more highly than another, which in turn could give rise to negative feelings and behavior (Gaddis, Connelly, & Mumford, 2004). The subjective perceptions surrounding the differences in pay raises are, therefore, also very likely to affect employees' work-related attitudes and behavior in addition to their actual financial outcomes.

Individualized pay raises are meant to occur after an evaluation has been made of whether the employee has met the previously determined pay-related criteria. However, since individuals are different and interpret reality in different ways (James & Sells, 1981; Magnusson, 1981), a good amount of uncertainty can arise in respect to the pay-related criteria and how they are to be fulfilled. Indeed, it is quite possible for individuals to have different understandings and interpretations of the same pay-related criteria. Individualized pay setting places more demands on supervisors to be informed, knowledgeable, just, competent, etc. (Gaddis et al., 2004). There are a number of potential challenges facing pay-setting supervisors, as they may find themselves with limited room for action, having difficulties carrying out differentiated pay increases, and having to handle conflicts – along with the inevitable challenge of working with the subjectivity built into the individualized pay system. Previously, when work was more concentrated around manufacturing, work performance was easier to

quantify, and employee pay could be based on the number of products or units produced. Today's salaries are, to a greater degree, based on individuals' personal work efforts, employment development and work results, which may not be easy to reconcile with the expectation that employees are to be treated equally (Neu, 2006).

If the employees are unsure about what or who is to be rewarded in regard to pay, feelings of injustice can arise along with more or less well-founded guesses about why one person received a better pay raise than another (Greenberg, 1993b). There are even those who fear that pay criteria would steer employees in a too narrow direction and/or that employees would even stop taking on work tasks that do not lead to pay raises (Pfeffer, 1997). This essentially hinges on the degree of trust and quality of communication existing between the management, the pay-setting supervisors, and the employees (Greenberg & Lind, 2000). It is, however, doubtful that the pay-setting supervisors receive the support or resources necessary to properly prepare themselves for many of the challenges that this pay system carries with it. One could even question whether it is at all possible for all employees to be satisfied with their pay raises – and whether this even should be the goal.

One of the most fundamental examples of perceptions in respect to pay setting concerns pay justice, as it is common for individuals to assess whether they are satisfied with their pay by comparing their pay to not only their own work effort, but also to what others receive in pay (Adams, 1965; Greenberg, Dutton, & Ragins, 2007). Individuals also tend to analyze whether their supervisors are acting in a fair and honest manner, whether the organizational policies in place are just, and whether satisfactory reasons are given for the various types of decisions that are made (Colquitt, 2001), such as pay-raise decisions (Schaubroek, May, & Brown, 1994). If employees do not believe that the pay-setting process is sufficiently just, it can affect their emotions and actions in a number of different ways (Bembenek, Beike, & Schroeder, 2007). For example, it has been shown that if employees consider the organization's pay distribution policies or supervisors to be unfair, it can lead to counterproductive behavior, such as employee theft (Greenberg, 1986), greater work absence (Colquitt, Noe, & Jackson, 2002; de Boer, Bakker, Syroit, & Shaufeli, 2002), turnover (Dailey & Kirk, 1992), the destroying of work equipment, (Bies, 2005), and refusing to follow the supervisors' instructions (Skarlicki & Folger, 1997). It would therefore be of importance to increase our knowledge of how justice perceptions are formed, and how they in turn are related to attitudinal and behavioral outcomes.

Though most individuals have many work- and pay-related attitudes and perceptions in common, there can still be reason to investigate whether differences exist among those of certain groups of individuals. Some studies, for example, have shown that women sometimes feel discriminated against in connection with the pay-setting process (e.g., Barron, 2003), and it is not

uncommon for women to receive less pay for their work than their male colleagues with similar levels of experience and education (National Mediation Office, 2008). It has also been shown that women, regardless of occupation, expect to receive lower financial benefits from pay negotiations than their male colleagues (Hultin & Szulkin, 2003; Jackson, Gardner, & Sullivan, 1992). The critical question is: do men and women view the individualized pay-setting process differently and, if so, what are the potential consequences?

The financial rewards employees receive for their work affects both their emotions as well as their thoughts, which, in turn, influences their general well-being and how they behave at work (Katzell & Thomson, 1990; Greenberg, 1993b). This implies that the effects that a pay system has on employees greatly depend on how it is perceived (Williams, McDaniel, & Nguyen, 2006), which suggests how important it is to consider pay setting from a psychological perspective. For a pay system to be considered successful, it must be seen as fulfilling the subjective expectations of those involved (Williams et al., 2006). The fact that expectations do exist in connection with the pay-setting process indicates that people believe that they are able to control their surroundings. This belief is important for people, as they continually analyze their surroundings in order to understand what is going on (James & Sells, 1981; Weich, Sutcliffe, & Obstfeld, 2005). But what happens to work motivation and performance when pay-raise expectations are not met, or if the employee does not want individualized pay?

Most of the research that has been done on individualized pay has primarily focused on the conditions in North America, and not enough European research has been produced, especially in regard to a number of important questions regarding, for example, which pay system is most preferred by employees, what factors have an influence on attitudes towards individualized pay, and how rewards affect individuals' feelings, work performance, and desire to remain with the organization or company (Vartiainen et al., 2008). Another seemingly relevant question that has only received limited attention in earlier research concerns what the consequences might be when the individualized pay-setting process is not perceived to be fair, either on the whole or because it is favoring certain groups over others.

## Aims

Consisting of three individual studies, this thesis focuses on the various subjective perceptions that arise in conjunction with individualized pay setting. The overall aim is to examine factors, primarily regarding the work climate and the pay-setting process, which may influence employees' pay perceptions. The possible predictors and effects of fairness perceptions are

investigated, and a descriptive analysis is presented of how women and men perceive some of the aspects of individualized pay setting.

Among employers who utilize the individualized pay system, there is a presumption that it has a motivational effect on employees. In order for such an effect to occur, however, those who are involved in the pay-setting process must not only be accepting of it, but must also see a connection between their pay raises and their performance. Since attitudes are shaped by both the individual and the situation, it is important to consider the impact that individual factors – as well as factors related to the pay-setting process and to work content – have on employees' pay perceptions. These pay perceptions may take the form of more general attitudes toward the pay system itself or of specific attitudes toward individuals' financial outcomes. Thus, the aim of the first study of this thesis is to explore some of the key factors that may influence pay perceptions.

For a pay system to work properly, it has to be perceived as fair by those who are a part of it. This may be of particular importance when it comes to the subjective elements of individualized pay setting (e.g., the supervisor's evaluation of work performance, the experience of being evaluated). Very few studies, however, have investigated the factors that may predict employees' justice perceptions regarding individualized pay setting, or examined whether there is a relation between pay justice and employee commitment, satisfaction or the desire to remain with the organization. The aim of the second study of this thesis is twofold. An examination is first conducted of how employees' work climate and elements of the individualized pay-setting process are related to their pay justice perceptions. This is followed by an exploration of whether these perceptions of pay justice influence employees' general work-related attitudes and behavior, and was accomplished by testing whether the justice perceptions of employees had a mediating effect on work and pay satisfaction, organizational commitment, turnover intentions, and performance.

Within any context, as well as for the pay-setting context, conscious and subconscious notions about the inherent characteristics and qualifications of individuals are to a certain extent based on their sex. The question of the degree of pay equality existing (or not existing) between women and men is one of constant interest. Previous studies have observed that there are numerous prejudices and notions concerning how women and men act and ought to act at the workplace. In addition, individuals experience things in different ways depending on the circumstances that have shaped their lives. The aim of the third study of this thesis is to examine how women and men view various aspects of individualized pay setting and, in particular, their perceptions of pay-related gender equality.

# Attitudes towards pay and their links to motivation

Rewarding individuals on the basis of their work performance can be seen as an attempt to unite the interests of the employers and employees by offering monetary incentives to encourage greater employee productivity (Deckop, Merriman, & Blau, 2004). But in order for individualized pay to be construed as an incentive by employees, they should have a positive attitude towards such a pay system in general and view it as something worth having. Attitudes can be said to be the perceptions that individuals have of the world around them, for example, in respect to other people, physical objects, a phenomenon, or a policy (Ajzen & Fishbein, 1977, 1980). Actions are influenced by how people think about various phenomena and the attitudes they have toward their surroundings (Ajzen & Fishbein, 1977, 1980) – and this is no less true in the context of pay setting. To have positive attitudes can serve to motivate employees to act in certain ways, such as increasing their work effort and work results (e.g., James, Hater, Gent, & Bruni, 1977; Lawler, Hall, & Oldham, 1974; Mamman, 1997; Parker et al., 2003).

For many years organizational researchers have been trying to determine what kinds of factors can motivate employees to act and perform well (Pfeffer, 1997). Several theories posit that motivation is primarily generated by rewarding or punishing an individual's behavior in accordance with whatever the behaviors are that the supervisor or organization wishes to reinforce or discourage. Reinforcement theories concern an individual's ability to associate an expressed behavior with its consequences. According to these theories, there are two types of factors that are held to influence individuals' voluntary behavior: antecedents, which are the events and conditions in effect prior to the behavior and consequences, which are what arise after the behavior (Honig & Stadden, 1977; Huczynski & Buchanan, 1991; Skinner, 1974). Antecedents, according to Komaki (1986), can consist of information that has been given, while consequences can take the form of granted, or withheld, rewards. Employers make use of instructions, rules, and goals not only to clarify what expectations are being put on the employee's performance, but also to specify the connection between behavior and rewards, and/or to signal on what occasions the rewards are most likely to be granted depending on the individual's behavior (Komaki,

1986). According to reinforcement theories, individualized pay can work as an incentive for employees: when employees are informed that a certain behavior is to result in a reward, such as a pay increase (the antecedent), they may alter or increase their work performance in order to earn the reward (the consequence). Such theories, however, do not attempt to clarify what transpires in between the antecedent and the consequence: what the individual perceives that he or she needs, expects, values, or wants is not explained – despite the fact that these factors should impact the motivational effect of the reward.

A theory that looks more closely at antecedents and consequences and their relationship with human behavior is expectancy theory (Vroom, 1964). By trying to explain what role individuals' expectations can have in relation to motivation, expectancy theory has been successfully used to understand behavior in a large variety of organizational settings. This theory presents a general framework for the assessment and evaluation of employees' behavior, including an investigation into how attitudes are formed. In this theory the impetus behind behavior is held to be a function of three appraisals: (1) expectancy – the probability of effort resulting in sufficient performance, (2) instrumentality – the probability that performance will be rewarded and (3) valence – the reward in question should be desired and sought after by the receiver (Donnelly, Gibson, & Ivancevich, 1987; Vroom, 1964). Valence can also be seen as having similarities with value theories (Locke, 1976) which postulate that employees compare their subjective perceptions of, for example, their pay, benefits, and working conditions with what they want, value, and desire when deciding how satisfied they are with their work and its outcomes. Empirical investigations have shown, in accordance with expectancy theory, that employees usually perceive the rewards as more desirable when they have received sufficient information about the pay system and have an understanding of how it works (Mulvey, LeBlanc, Heneman, & McInerney, 2002).

According to equity theory (Adams, 1965), motivation arises after employees conduct an evaluation of how their own, and others' apparent, work-related outcomes (e.g., in terms of pay, prestige, and other benefits and rewards) compare to the believed or apparent input and contributions that they and others have made at work (e.g., in terms of effort, time spent, and abilities exercised). Such evaluations are highly subjective in nature and do not necessarily reflect the actual conditions. If employees believe that there is an imbalance between their input and their outcomes, in comparison to their colleagues, it can be a catalyst for either motivation or demotivation.

These theories contribute to our understanding of how people's subjective perceptions in matters of pay may lead them to have different pay attitudes, which in turn could have an impact on their work satisfaction and motivation.

## Pay attitudes

There are a number of attitudes that are relevant in the pay-setting context, including, for example, employees' general attitudes towards the pay-setting system itself and how it functions. Pay attitudes can also concern how satisfied employees are with their earnings and whether they perceive that their pay is commensurate with their work (Mieceli & Lane, 1991). These attitudes, when taken together, give a general impression of how employees feel about their overall pay situation, which can have an impact on their motivation, effort and efficiency at work (Katzell & Thompson, 1990; Vroom, 1964; Williams & Levy, 2000).

With the trend towards greater individualization that has been occurring in Swedish society (Andersen, 1997), a growing number of employees have begun to look positively upon individualized pay as a phenomenon (Wallenberg, 2000). Not everyone, however, feels similarly when it comes to individualized pay setting. Employees will either approve of or dislike the pay system as a whole, and they may have other opinions about how pay raises are best determined. For example, it is quite possible for employees to have a positive attitude towards their work results being evaluated on an individual basis and to appreciate being allowed to discuss their results with the supervisor, which is typical in an individualized pay-setting system, and to at the same time prefer that their pay raises are settled at a more central level by labor market parties and regulated by collective agreements, in accordance with more traditional pay systems (Cable & Judge, 1994). The level at which employees prefer their pay raises to be negotiated, whether it be at the local level, for example, with the pay-setting supervisor, or at the more traditional, central level is an important aspect of employee attitudes towards individualized pay setting as a whole (Wagner & Moch, 1986). It is, however, important to not only investigate employees' attitudes towards the pay system itself, but to also investigate their attitudes towards their personal earnings, since both of these aspects may influence each other as well as affect employee motivation.

One of the perhaps most investigated pay-related attitudes that concerns employee earnings is pay satisfaction. It has been defined as the sum of the feelings that an employee has in regard to his or her overall pay, pay raises, and benefits (Judge & Welbourne, 1994; Miceli & Lane, 1991). How positively or negatively employees view their organization's pay policies and how the pay system operates have been found to be related to pay satisfaction (Dyer & Theriault, 1976). If employees are satisfied with what they receive, it can lead to an increased sense of work motivation and inspire them to continue to achieve good work results in the future. Investigations have shown that employees' degree of satisfaction with the compensation they receive is related to both their current behavior as well as their subsequent adjustments in behavior (Deckop, 1992). Perceptions of pay

equity represent another important factor in regard to pay. Employees consider it important to know how their pay compares to that of their co-workers (Adams, 1965). This interest results in employees frequently examining their supervisor's behavior towards other employees as they evaluate how they themselves are treated and compensated in comparison to their colleagues. By this means, important information is gained in regard to their position within the work group (Greenberg et al., 2007; Lind & Tyler, 1988). According to earlier studies on pay equity, when employees perceive that their work results are justly rewarded, it can positively influence certain behaviors, such as work effort (Williams et al., 2006) and efficiency (Meterko et al., 2006). Conversely, employees who perceive that they are not paid enough for their work may wish to balance the relationship simply by decreasing their efforts and their work results (Adams, 1965).

## Predicting pay attitudes

Although research on the interrelation among compensation systems and various work characteristics has been quite limited (Campion & Berger, 1990; Kohn, 2001; Vartiainen et al., 2008), it is likely that employees' attitudes towards the individualized pay-setting system and their own earnings can be influenced by a number of organizational circumstances. These circumstances may include employees' perceptions of how the pay-setting process operates as well as their attitudes towards the design of the evaluation system (Ryan, Schmit, & Johnson, 1996; Williams & Levy, 2000), or their working conditions. It is therefore important to investigate these circumstances from a broad perspective (Montemayor, 1995).

## Demographics

Individual characteristics have been found to relate to employee perceptions of their pay and the pay system itself. Previous studies have, for instance, observed that older employees with long tenure are more likely to expect higher pay raises and to consider themselves more deserving of higher pay raises than their younger colleagues (Lawler, 1971; Mamman, 1997; Miceli & Lane, 1991). Older employees have in earlier research also been found to have more skeptical views of individualized pay than of traditional pay systems (Lawler, 1971; Wallenberg, 2000; Williams et al., 2006). This may be explained by the fact that older employees more often have longer tenure as well as accumulated experience, and therefore tend to be rewarded more than their younger counterparts in traditional pay-setting systems (Pfeffer, 2001). With individualized pay setting, however, competence, work results, leadership and cooperation skills are usually rewarded rather than age and experience. This can lead to older employees and those with long tenure

feeling that they are not adequately recognized and rewarded for their experience and maturity, and they may therefore become negatively disposed to individualized pay setting. Another potentially influential factor is gender, since several studies have found that the way women and men are treated in matters concerning pay and rewards differs (Barron, 2003; National Mediation Office, 2008). Women usually hold more positive attitudes toward pay and report higher levels of pay satisfaction and equality (Williams et al., 2006). The gender aspect of pay will be further explored later in this thesis.

## **Work environment**

When it comes to factors relating to the work environment, there are a number of circumstances that can influence the pay attitudes of employees. One such factor is job satisfaction, which stems from the relatively stable evaluations that employees normally make in respect to how well their work fulfills their expectations, wishes, and needs (Locke, 1976). Previous studies have shown that positive perceptions of the work generally being satisfying can lead to a higher degree of pay satisfaction (Quarstein, McAfee, & Glassman, 1992).

One of the perhaps most consequential factors for influencing pay attitudes is feedback. To receive feedback on work progress is essential for employees since it gives them the pointers they need to later adjust their work efforts in order to more satisfactorily fulfill the pay criteria, if they so wish (Heneman, Porter, Greenberger, & Strasser, 1997; Mulvey et al., 2002). Previous investigations have found that when employees receive adequate performance feedback, their expectations about how much compensation they should receive become more realistic. Having realistic expectations in regard to pay outcomes has, in turn, been found to decrease employees' dissatisfaction with their pay (Williams et al., 2006). Relatedly, increased performance feedback may have a positive relation to pay satisfaction, according to other studies (Mulvey et al., 2002; Sweins & Kalmi, 2008).

Another important factor is role overload, which is experienced when employees feel that they do not have enough time to carry out their work satisfactorily (Beehr, Walsh, & Taber, 1976). It is plausible that employees who perceive that they have a high workload would consider an individualized pay system to be more attractive, since such a system should entail that hard work is linked to greater rewards (Daly & Geyer, 1994). If the employees, on the other hand, are disappointed over an expected pay raise because it did not match what they believed they deserved for their work efforts, it can have a negative effect on their attitudes towards the pay system (Rice, Phillips, & McFarlin, 1990). It is also possible that employees who feel that they are already working near their maximum capacity and thus cannot increase their efforts more than marginally will have a more

difficult time fulfilling certain pay criteria and receiving further pay raises, which may end up giving them a less positive opinion of the pay system.

Also of importance for pay attitudes is the degree of autonomy employees perceive they have in their work, which is essentially based on how much influence they feel they have over how the work is organized and carried out (Hackman & Oldham, 1975). Employees who perceive that they have control and are able to organize their work relatively independently would be expected to have more opportunity to direct their efforts towards the goals of the organization and, in so doing, they may be better able to fulfill the pay criteria than those whose work is to a greater extent organized by others. Previous research has also shown that a high degree of control can be of importance for employees' pay attitudes, in terms of what type of pay-setting system they prefer (Farh, Griffeth, & Balkin, 1991). Employees who have work tasks in which they have a high degree of autonomy have been found to be more positive towards individualized pay setting (Montemayor, 1995) as well as more satisfied with their pay (Williams et al., 2006).

Another important factor is job challenge, which refers to the degree to which employees perceive that their work is both intellectually challenging and varying in terms of kinds of work tasks (Hellgren, Sjöberg, & Sverke, 1997). One of the reasons why work characteristics such as job challenge have been found to contribute to the job satisfaction of employees (e.g., Dierdorff & Surface, 2008; Hackman & Oldham, 1975) may be that employees become inspired to perform better when their work involves learning new things and developing skills (Brown & Leigh, 1996). In other investigations, employees who work in enriched jobs have been found to receive more pay because of their increased responsibilities and skills (Bunning, 1992; Locke, Sirota, & Wolfson, 1976). Furthermore, employees whose jobs offer challenging and varying work content have often been observed to perceive a clear link between their personal competence and pay raises (Dierdorff & Surface, 2008).

## **Pay and performance-related factors**

When it comes to pay, employees cannot help but comparing themselves with each other (Pfeffer, 1997). Such comparisons often concern how employees believe their own performance stacks up against that of their co-workers with comparable work tasks. If everyone's work results were of the same high quality, there would be no point in utilizing individually based pay setting, since every employee would deserve to receive the same size pay raise. But if employees find that there are performance differences among the employees, they tend to have a positive view of individualized pay, since it allows for distinctions to be made among the performances, and efforts and results are rewarded to a greater extent than in a traditional pay system (Lawler, 1971). However, in order for employees to have positive

attitudes towards individualized pay, they must feel that the differences between employee performances are actually being noticed by those who are in charge of pay setting and that they are receiving differentiated pay raises (Mannheim & Angel, 1986).

Several investigations have found that having a strong connection between performance and pay, known as “line of sight” (Heneman, Ledford, & Gresham, 2000), can lead to employees being more satisfied with the pay system and their pay, as compared to when the connection is weak and unclear (Lawler, 2000; Miceli & Lane, 1991; Mulvey et al., 2002). Other studies have found that the expectations employees have in regard to this connection may also influence how positive or negative they are towards a pay system, for example, in that they are ready to blame the pay system when they are not rewarded in accordance with their expectations (Williams et al., 2006).

If employees find that differences in employee performances are not reflected in the pay raises received, or that their efforts to improve or alter their work to meet the determined criteria are not rewarded, they will be less satisfied with their overall pay, perceive less equity, and have more negative attitudes towards the entire individualized pay-setting process (Honeywell, Dickinson, & Poling, 1997; Williams et al., 2006). To maintain or create positive attitudes towards individualized pay setting, it is therefore crucial that employees feel convinced that a given behavior will result in a given reward, and that they are made aware of the employer’s impression of their performance – which can lead to more realistic expectations about the magnitude of the reward (Lawler, 2000; Miceli & Lane, 1991).

# Justice perceptions in regard to individualized pay setting

One of the basic presumptions behind individualized pay setting is that it will lead to increased motivation and work performance among employees, but in order for these expectations to become a reality, it is important that the employees perceive the pay system and the pay distribution process to be fair (Rynes, Gerhart, & Parks, 2005). There are several elements of the individualized pay-setting process that can influence fairness perceptions, including the amount of performance-related feedback employees receive, the clearness of the pay-related criteria and objectives, the competency and propriety of the supervisor's behavior, and the actual pay policies recommended by the organization. Any of these can constitute a potential stumbling block for employers who wish to show that pay and benefits are justly distributed in their organizations. Several studies have found that perceptions of justice are strongly connected to pay or pay raise satisfaction (Folger & Konovsky, 1989; Sweeney & McFarlin, 1993), while others have shown that justice perceptions influence employees' effort and performance at work (Deckop, 1992; Lawler, 1971), and increase employees' organizational commitment and confidence in their supervisor (Cohen-Charash & Spector, 2001). The study of pay-related justice can be seen as a part of the larger research area on organizational justice, which has expanded considerably in recent decades (Cohen-Charash & Spector, 2001). Pay-related justice encompasses research on how employees perceive their pay in relation to other factors (e.g., how hard they work or what rewards their co-workers receive), how fair the decision-making process or organizational policies are perceived to be, as well as how informative, sincere, and respectful the organization and its representatives act towards the employees (Ambrose, 2002; Colquitt, Conlon, Wesson, Porter, & Ng, 2001).

## Why justice perceptions matter

It is clear that justice is of fundamental importance for people, which may be related to the strong feelings that it carries with it (Folger & Schminke, 1998). Lind and Tyler (1988) identified two mechanisms through which justice affects individuals. The first concerns its appeal to self-interest,

which rests on individuals believing that a justly run process (e.g., a pay-setting process) is positive insofar as it allows them to maximize their personal gains. The second has a more relational focus and concerns the effects of justice on an individual's status within a group. The fairness of an individual's treatment, especially by a superior, is an expression of how important that individual is for his or her group. Lind and Tyler (1988) emphasize that they did not find any evidence which indicates that either of these mechanisms are more important than the other. Rather, they should be seen as two complementary explanations for why justice is so crucial.

The above would suggest that people feel validated when they are treated in a fair manner and believe that just processes will also lead to just rewards. How individuals determine whether something is "fair" or "unfair" in the first place is naturally of importance in this regard as well. Fairness theory has attempted to specify the conditions and circumstances that can contribute to a situation being characterized as either fair or unfair (Folger & Cropanzano, 1998, 2001). In essence, a person's evaluation of fairness is based on comparisons between the actual situation and any other alternatives that might exist (Folger, 1987). This occurs, for example, when an employee believes that he or she would have received a more just (i.e., higher) pay increase if the pay-setting supervisor had used another type of available evaluation method. This employee, according to fairness theory, would also try to determine if a particular individual could be seen as responsible for what happened. In this example, the employee would have likely chosen the supervisor as the one responsible and gone on to conclude that the supervisor could have given a more deserved pay raise if more appropriate evaluation methods had been chosen. With this, the employee would try to decide whether that supervisor's actions were morally deficient (e.g., by not giving an honest evaluation) or misguided (e.g., if the supervisor had received misinformation about which criteria were to be used).

According to fairness theory, these kinds of fairness judgments are made quickly and automatically, and are rather emotional (Cropanzano, Byrne, Bobocel, & Rupp, 2001). An individual's subjective and emotional experience is central to his or her reactions to lack of fairness (Folger & Cropanzano, 1998). An actual injustice does not have to take place for such reactions to occur; just to perceive that an injustice has occurred is enough to elicit such a reaction. This is in line with the bulk of current research on justice, where the phenomenon usually is described from not only an objective perspective, but also from a subjective perspective that takes individual justice perceptions into account (Colquitt, Greenberg, & Zapata-Phelan, 2005). The rise in the number of studies on how employees are affected by organizational procedures with varying degrees of fairness has increased in recent decades and indicates that this is still an area of great interest (Ambrose, 2002). In order to understand how the concept of organizational justice and the various dimensions of justice came into being,

and how they have been and can be applied in relation to pay, a short historical summary is given below.

## Dimensions of justice

### **Distributive justice**

To perform a job and receive compensation for that work are fundamental conditions in the, more or less formalized, agreement that typically exists between employers and employees (Rousseau, 1989). In order for both parties to be satisfied with the agreement, however, the pay must be considered to be commensurate with the performance (Homan, 1961). Accordingly, individuals have an expectation that their efforts will yield proportionate rewards, and when this happens, a sense of (distributive) justice arises. Conversely, when this expectation is not met, a sense of injustice would be expected to arise instead (Homan, 1961). It is, however, difficult to predict whether a person will find a given distribution to be just or unjust since such a perception is based on the individual's subjective interpretation. It is likely the magnitude of employees' expectations that governs the extent of their satisfaction or dissatisfaction experienced after an exchange (Blau, 1964, 1986).

Adams (1963, 1965) called distributive justice pay equity, and defined it as concerning the fact that people want to be rewarded in proportion to what they believe they deserve, according to their performance or what they were previously paid. This may also involve comparisons with what other employees, in the same or in another organization, receive in earnings or as pay raises. Such examinations into equity could, according to Adams (1965), potentially result in feelings of guilt if a person were to conclude that he or she earned more than they deserved, or feelings of anger if they received less than they thought they were worthy of. In either case, if individuals do not believe that they have been treated fairly, they will perceive a state of imbalance, which will produce a certain discomfort and thus prompt them to take some sort of action in order to try to restore balance. For instance, if the employees believe that their pay-raise levels are too low in comparison to their work efforts, they may choose to decrease their work pace in order to feel that the situation is fairly balanced. On the other hand, it could lead certain individuals to increase their work efforts even more in an attempt to recommend themselves for a sought-after pay raise before the next pay-setting opportunity. For some, this feeling of imbalance may even result in their terminating the agreement by, for example, obtaining employment elsewhere.

Distributive justice is probably one of the most commonly used measures for trying to evaluate the various aspects of pay justice. This is only natural since this dimension relates to the connection between justice perceptions and financial outcomes. Studies have shown, for example, that distributive justice may be related to employees' pay-raise satisfaction (Folger & Konovsky, 1989). In general, a person's sense of satisfaction is likely to depend on what the object of comparison is, as different objects will likely lead to different emotional outcomes (Landy, 1985; Locke, 1976). To compare one's pay with that of one's assistant would likely produce a different justice perception than if the comparison had been with the manager's pay, for example. An individual's degree of satisfaction with a result, such as a pay raise, can therefore be regarded as more of a relative than an absolute phenomenon (Blau, 1964, 1986).

### **Procedural justice**

In the mid-1970s researchers began to explore how important the processes (rules, policies, norms) that regulate the distribution of rewards were for individuals' justice perceptions (Deutsch, 1975). Thibaut and Walker (1975) coined the term "procedural justice" after finding that participation in the decision-making process and influence over the outcome were important factors for whether employees considered the process to be fair. They found, in accordance with research on outcome fairness, that justice depends largely on what is perceived to be just. But, in order for a process to be perceived as just, it typically has to fulfill a number of criteria (Leventhal, 1980): (1) consistency, by being stable and not favoring anyone; (2) bias suppression, by excluding any built-in biases; (3) accuracy of information, by being based on correct information and knowledge; (4) correctability, by being unequivocal as well as revisable if needed; (5) representability, by representing the views of the individuals it concerns, and (6) morality, by upholding acceptable ethical and moral values.

These six criteria are likely to be of relevance if the distribution of rewards is to be perceived as being just by those affected (Leventhal, 1980). Those procedures which concern how pay setting within an organization is to occur can give rise to several types of justice perceptions among employees. For example, perceptions of procedural justice have been shown to relate to organizational citizenship behavior (Aquino, 1995), supervisory satisfaction (DeConinck & Stilwell, 2004), pay system acceptance (Cloutier & Vilhuber, 2008), and pay satisfaction (Leliveld, van Beest, van Dijk, & Tenbrunsel, 2009). It has also been observed that apparently unfavorable pay-related decisions, which could be perceived as unfair by employees, do not evoke the same degree of negative reaction from employees if the process leading up to the decisions is perceived to be fair (Cohen-Carash & Spector, 2001).

This seems to indicate that the degree of perceived justice is greater for those employees who believe that the decision does not favor anyone in particular, that they have received sufficient reasons for why the decision had to be made, and that the information about it was honest and correct. In other words, it is not only the receiving of a satisfactory pay raise that can impact justice perceptions, but also whether the process surrounding it is seen as fair.

## **Interactional justice**

In the mid-1980s a study was conducted on how social interaction affects justice perceptions, and this phenomenon came to be termed interactional justice (Bies & Moag, 1986). Bies and Moag (1986) identified four main factors that can affect whether employees perceive that they have been treated fairly by their supervisors: (1) respect, concerning the degree of dignity and credibility shown by the supervisor; (2) propriety, regarding the appropriateness or prejudice of the supervisor's comments; (3) justification, with regard to the adequacy of the reasons provided for the decisions that are made; and (4) truthfulness, regarding the accuracy and frankness of any reasons or explanations given by the supervisor. This suggests that in order for supervisors to appear fair, they should be open and honest, and provide adequate and sufficient information about the reasons behind their decisions, so that they are not suspected of being deceitful or discriminatory. Supervisors should also act respectfully and treat the employees with dignity and avoid making indecent, prejudiced, or inappropriate comments. Perceptions of interactional justice have in earlier research been connected to employees' organizational citizenship behavior (Rupp & Cropanzano, 2002), trust in management, organizational commitment (Barling & Phillips, 1993), and trust in supervisors (Aryee, Budhwar, & Chen, 2002), as well as their views on supervisor legitimacy (Masterson, Lewis, Goldman, & Taylor, 2000), feedback processes (Baron, 1988), workplace revenge (Bies & Tripp, 1995, 2002) and workplace sabotage (Ambrose, Seabright, & Schminke, 2002).

In the 1990s it was proposed that the dimension of interactional justice should be divided into two separate dimensions – interpersonal justice and informational justice (Greenberg, 1993a). Greenberg argued that the concept of interactional justice actually applied to the measuring of two distinct things, and that the original four factors (respect, propriety, truthfulness, and justification) should be separated into these two new dimensions. He claimed that interpersonal justice concerned the aspects of respect and propriety and that truthfulness and justification related to informational justice (Greenberg, 1990). During the individualized pay-setting process these four factors come directly into play when employees and their supervisors meet together to discuss matters relating to work performance and potential raises, such as the

employee's recent work output and his or her other personal assets. Informational and interpersonal justice are therefore evaluated by employees, in principle, at every meeting with a supervisor (Bies, 2005).

### *Informational justice*

If employees are to perceive that a pay-setting process is just, supervisors should be able to provide explanations for their pay-raise decisions that seem reasonable and credible to the employees (Greenberg, 1993b). In addition to this, employees need to feel that the given explanations and information in connection to pay decisions is sufficient. It is important that employees have confidence in their management in order for their decisions to be seen as fair (Ambrose, 2002; Cohen-Charash & Spector, 2001). This also applies to unfavorable pay-related decisions such as pay freezes, since it has been found that employees view such decisions as more fair when they receive justifiable explanations for why they were made (Schaubroeck et al., 1994).

### *Interpersonal justice*

The pay-setting process, as mentioned earlier, involves a number of occasions where employees meet and communicate with their supervisors. These may be in the form of formal meetings, such as the performance review, or they may occur more spontaneously, such as when feedback is given on a work task. Whether it be in connection with the former or the latter, employees continually evaluate how they are treated by their supervisors. It is important that employees believe that they are being treated with respect and dignity by their supervisors, especially considering the fact that disrespect is a central factor in the analysis of the psychology of injustice (Miller, 2001). Above all, inappropriate or prejudiced comments are perceived by employees to be strongly insulting (Tepper, 2000). Being treated with respect increases employees' self-esteem and gives them a feeling of being valued within their group (Cohen-Charash & Spector, 2001).

## The four justice dimensions put into practice

The notion that justice is comprised of four distinct dimensions has received empirical support in recent years. Confirmatory factor analysis has demonstrated that the four dimensions do measure different aspects (e.g., Colquitt, 2001; Colquitt et al., 2001; Judge & Colquitt, 2004; Kernan & Hanges, 2002; Shapiro, Buttner, & Barry, 1994). Though many studies have been conducted within the area of organizational justice, there is still no unified concept of justice which applies to employee justice perceptions relating to the work environment; instead, the concept of justice is divided into the various already described dimensions (distributive, procedural, and

interactional/informational and interpersonal justice). Most empirical studies have therefore utilized differing sets of justice measures by selecting from among those which represent the dimensions that, at the time, are believed to be most valid for the phenomenon (Ambrose, 2002; Cohen-Charash & Spector, 2001; Colquitt, 2001). Very few studies have attempted to examine organizational phenomena using all four of the justice dimensions, and hardly any have utilized them to study the area of pay. This seems to indicate that there is still a good amount of disagreement among researchers on the precise nature of justice at the workplace, and may furthermore be a consequence of the fact that the area of organizational justice does not have an accepted comprehensive theory to turn to (Latham & Pinder, 2005). This lack of consensus demonstrates that more attention needs to be paid to determining which work- and pay-related factors are related to the four dimensions of justice, which entails looking at what consequences individuals' perceptions of whether something is just or not, in respect to pay, may lead to and then exploring what the conditions are in the work environment that shape these perceptions.

## Predicting perceptions of pay justice

Many of the studies on organizational justice have shown that it is primarily factors in the employees' surroundings which influence their experiencing of justice (Pfeffer, 1997). This would suggest that an individual's perceptions of justice in respect to the individual pay-setting process are shaped by factors at the workplace, including those that relate to the interactions between supervisors and employees.

Since one's pay and, thereby, the system it is based on are both of great consequence to most employees, it is not difficult to accept that one's pay level has a role in how just a pay system is perceived to be (Greenberg & Lind, 2000). Although, the impact of monetary rewards in comparison to the effects other work-related factors have on pay attitudes will probably vary depending on what individuals prioritize. Those of different demographic groups, for instance, have been found to prioritize different justice issues (Brockner & Adsit, 1986). The degree of pay justice perceived by individuals of certain occupational groups would likely differ depending on whether, and to what extent, they believe that the pay system is favorable or unfavorable to them as a member of this group. It has also been shown that women and men may react in different ways in connection with the pay-setting process (Kaman & Hartel, 1994; Small, Babcock, Gelfand, & Gettman, 2007).

There are also a number of factors in the work climate that are associated with employees' perceptions of justice (Colquitt, Greenberg, & Zapata-Phelan, 2005). An important aspect of individualized pay setting is that the

employee's performance is evaluated by someone else, the pay-setting supervisor (Pfeffer, 1997). In order for employees to be able to perform at a level or in a manner which will ultimately lead to a pay raise, they need to not only be aware of which pay criteria are prioritized by their organization (Daly & Geyer, 1994; Ilgen, Major, & Tower, 1994), but also need to receive regular feedback from the supervisor on how well their work is progressing. This would allow employees the opportunity to alter their work efforts if so desired (Schaubroeck et al., 1994). Receiving clear and sufficient information in connection with pay-related decisions tends to be important for employees' perceptions of justice in respect to the pay-setting process as well as the pay policies behind it (Bies & Moag, 1986; Colquitt & Chertkoff, 2002). But if the fulfillment of the expected goals or the previously determined pay criteria is to be a real possibility for employees, they must have the ability and leverage necessary to pursue them (Mueller, Iverson, & Jo, 1999), as well as a workload that suits the given work demands (Hackman & Oldham, 1976).

Communication between supervisors and their employees can be facilitated by the setting up of regularly scheduled performance reviews in which subjects such as an employee's work performance and various pay-related decisions are discussed. Some employees may feel uncomfortable about being evaluated in such a meeting (Weiss & Cropanzano, 1996). With individualized pay setting, in contrast to many traditional pay systems, interpersonal interaction between supervisor and employee is fundamental to the process, which may increase the likelihood of disagreement and potentially turn it into a breeding ground for perceptions of unfair treatment (Kohn, 2001). The experiencing of some sort of pay-related discrimination (e.g., in regard to receiving a lower pay than expected) may also affect an employee's perceptions of justice. For example, there are studies which indicate that men receive preferential treatment, are more demanding, and achieve better results than women from pay discussions (Barron, 2003). A number of studies have found that men typically earn more than women, which shows that pay levels are not yet equal between the genders (National Mediation Office, 2008; OECD, 2007). If the opportunities or chances of being successful in the pay-setting arena are not the same for women and men, it may likely affect their perceptions of fairness.

## Consequences of (in)justice

Everyone carries with them their own set of prior experiences, and these experiences affect our views on what is fair and unfair (Weiss, Suckow, & Cropanzano, 1999). Because of this, different individuals may reach quite different conclusions about the very same outcome. The various dimensions of justice have been observed to relate to different outcomes. Distributive

and procedural justice have, for example, been shown to have relatively strong positive relations to job satisfaction (Colquitt et al., 2001), organizational commitment (Ambrose, 2002; Cohen-Charash & Spector, 2001), and pay satisfaction (Folger & Konovsky, 1989; Sweeney & McFarlin, 1993). Low levels of interpersonal and informational justice have, on the other hand, been found to lead to more negative outcomes such as withdrawal and other negative reactions (Colquitt et al., 2001; Greenberg, 1990). Previous studies have observed that unfair treatment is strongly related to attitudes, emotions, and behavior (e.g., Barclay, Skarlicki, & Pugh, 2005; Colquitt et al., 2001; Tyler & Lind, 1992). The experiencing of injustice can, for example, bring about any of a number of negative emotions, including disappointment, anger, and jealousy (Mikula, Scherer, & Athenstaedt, 1998). These reactions, in turn, can prompt individuals to take some sort of harmful action against the organization (e.g., Greenberg, 1993b; Skarlicki & Folger, 1997). In a study by Ambrose, Seabright, and Schminke (2002), for instance, individuals who believed that they had been unjustly treated at work sometimes sought revenge by engaging in sabotage or stealing. In the earlier literature, much of the focus is on the effects of insufficient organizational justice, since perceived injustice leads to much stronger responses than perceived justice appears to (Folger, Cropanzano, & Goldman, 2005).

For employees, their own financial outcomes and the pay-setting process are two related areas that tend to raise strong emotions (Pfeffer, 1997). It has been argued, for example, in discussions on expectancy theory (Vroom, 1964) and equity theory (Adams, 1965), that the pay distribution process in organizations and the financial outcome can have an influence on employees' work motivation, a notion which has also received support in more recent studies (Porter, Bigley, & Steers, 2003).

It is highly likely that a pay-setting process that is believed to be unjust could have a negative effect on employee motivation. Work motivation can manifest itself in a number of different ways, such as in the quality of work performance, the amount of effort put into work assignments, how well instructions are followed, and the degree of cooperation exhibited. Since these are aspects which could typically be taken into account in the pay-related criteria of an individual pay-setting process, unmotivated employees may find their future pay raises affected if they do poorly in respect to these aspects. It is therefore important that individuals maintain their motivation in order for this type of pay system to work as intended.

When there is a lack of justice regarding the method of pay setting, as with inequitable pay raises or biased methods of work performance evaluation, employees may end up becoming more inclined to quit (Tekleab, Bartol, & Liu, 2005). Insufficient pay justice has also been observed to lead to health-related consequences in that lower levels of pay justice resulted in greater worry as well as sleep difficulties among the employees (Greenberg,

2006). Furthermore, not receiving the salary or wages that one believes is deserved, that is, experiencing low pay equity, has been observed to increase the extent of emotional exhaustion experienced by certain employees, which was then found to lead to a variety of emotional and psychological symptoms (Brotheridge, 2003).

While the purpose of this thesis is to study perceptions of justice rather than injustice, previous studies on the consequences of unfair employee treatment are still helpful for showing the effects of such treatment and how important it ought to be for organizations to try to create and uphold policies and norms that are perceived as just. Justice is a fundamental value for most people, which likely explains why deviations from it are so upsetting. Altogether, it can be concluded that when employees are unfairly treated, the responses that emerge are emotional (e.g., as in low commitment), behavioral (e.g., in the form of revenge or quitting), and health-related (e.g., as in lower well-being) in nature.

# Individualized pay setting and gender equality

When the subject of pay-related discrimination is mentioned, it usually concerns the unreasonable differences in pay level that exist between women and men who have similar backgrounds, levels of experience, competencies, and skills etc., but who are not treated equally in respect to pay or given equal opportunity (Barron, 2003; Tharenou, 1999). Pay-related equality is lacking across the world, as men generally receive up to 20 percent more in pay than women (OECD, 2005, 2007). In respect to Sweden, the National Mediation Office (2008) reports that the pay differences between the genders is still between approximately 5 and 15 percent, to the advantage of men. While some justifiable pay differences, based on various background factors, such as education and competence, account for some of the differences in pay, there still remains a discrepancy of several percentage points between the earnings of men and women that cannot be explained by taking such relevant factors into consideration (National Mediation Office, 2008; OECD, 2005). One of the most common explanations for why the pay differences between women and men remain is that they are the result of, more or less conscious, acts of discrimination against women (e.g., Acker, 1991; Ayres & Siegelman, 1995; Barron, 2003; Hultin & Szulkin, 1999; Ljunglöf & Pokarzhevskaya, 2009; Stroh, Brett, & Reilly, 1993).

Individualized pay systems are meant to give all employees the same opportunity to present their skills and accomplishments in the context of a performance review, as well as the opportunity to adjust their work performance in order to meet the determined pay criteria and organizational goals. If women's and men's perceptions differ, not only in regard to how well the system is functioning overall, but also in regard to how well they themselves are functioning within the pay-setting system, it may likely affect their attitudes and behavior – and even their financial outcomes in the long run (Major, Vanderslice, & McFarlin, 1984). Earlier studies on pay setting have observed differences between how women and men are judged at work (Olsson, 1999; Stroh et al., 1993), how they are able to (or wish to) promote themselves (Eagly, Mahijani, & Klonsky, 1992; Hultin, 2003), how they prioritize promotions and pay raises (Barron, 2003), and also found that women and men differ in their expectations about what level of pay or pay increase they deserve or are going to receive (Hojat et al., 2000; Kaman & Hartel, 1994). All of this suggests that women and men may very well act in different ways in connection with individualized pay setting and may have

differing experiences of the same pay system. It is also possible that there are certain inherent aspects of the individual pay-setting process that are more disadvantageous for one gender than the other or that the pay system on the whole contains various biases. When the pay-setting process is conducted in a way that discriminates against certain individuals or groups, the work motivation and work interest of employees decreases (Amabile, 2001; Kohari & Lord, 2007; Porter et al., 2003; Wolters, 2001), which can result in employees quitting their employment (Jones, 1998; Tekleab et al., 2005). It is naturally of importance to recognize the pay differences that exist, but it is just as important that we increase our knowledge about women's and men's perceptions of the pay-setting process.

To obtain a more comprehensive picture of how women's and men's perceptions can manifest themselves in connection with the individualized pay-setting process, it is essential to study these perceptions from a wide perspective. This may include examining the degrees to which women and men are aware of the organization's pay-related goals, policies, and criteria, how strongly they perceive the relation between performance and pay is, and how positive or negative their attitudes are towards the individualized pay system. Opinions towards individualized pay setting could, for example, be influenced by whether women and men believe that pay-related gender equality exists at their workplace and whether they are granted equal opportunity to benefit from such a pay system.

## Organizational goals, policies, and pay criteria

A number of studies have demonstrated that, while the specific goals, pay criteria, and policies of an organization may vary, all of them need to be realistic and employees must be aware of them in order for their fulfillment to be feasible (e.g., Daly & Geyer, 1994; Locke & Latham, 2002). This knowledge gives employees insight into what the organization values and considers important. The employees will then most likely aim their efforts in the expressed direction, which would mean that goal setting is functioning very much like an incentive (Locke & Latham, 2002; Pfeffer, 1997).

During performance reviews, pay-setting supervisors are given the opportunity to communicate the views of the organization (Folger & Konovsky, 1989; Granqvist & Regnér, 2008). But what happens if different individuals perceive and understand the information given in different ways? There are, for example, studies that indicate that women and men do not take in information in the same way due, in part, to their differing areas of interest (McKelvie, Standing, St. Jean, & Law, 1993; Tannenbaum & Leaper, 2003). This could lead to their focusing on different aspects of the information presented, and the same information may be remembered differently (McKelvie et al., 1993). The tendency for such differentiation to

occur has also been observed in investigations which found that women performed better than men when it came to remembering and identifying romantically formulated sentences that had been presented to them, while the men were better at remembering and identifying erotically formulated sentences (Geer & McGlone, 1990). Earlier research has also shown that women are better than men at naming various fruits, while the results were the opposite when the objects to be named were tools (Capitani, Laiacona, Barbarotto, & Cossa, 1999).

Performance reviews typically involve a discussion about an employee's performance in terms of how well he or she is meeting the previously decided goals and criteria. However, if women and men to a certain degree prioritize different things, they can end up working towards different objectives. Regarding the differences in work-related interests between women and men, previous studies have shown that women prioritize the more social and intrinsic aspects of their job (e.g., having a meaningful employment, good relationships with co-workers, a supportive atmosphere, and a good work–family balance), while men to a greater extent prefer more extrinsic rewards (e.g., opportunities for advancement) (Jackson, 1989; Tolbert & Moen, 1998). Women and men also seem to prioritize the sizes of their financial outcomes somewhat differently. Financial reward seems to be of more importance to men, especially when it is a question of receiving greater earnings than their colleagues – since men see their pay level as an employer's indication of their worth as a human being (Barron, 2003). Women, on the other hand, rarely believe that earning more than their colleagues is important, that is, as long as they do not earn less than their colleagues, which can evoke a feeling of inferiority (Alsterdal & Wallenberg, 2005). If the interests of women and men differ, as McKelvie et al. (1993) suggest, and they receive information and interpret and/or evaluate the pay criteria or goals differently, it could lead to women and men acting and focusing their efforts in different directions. Previous research has shown that women and men are often not rewarded on the same basis (Eagly & Sczesny, 2009; Olsson, 1999) and therefore end up obtaining differing financial outcomes (Steele, 1997).

## Gender differences and equality in respect to pay setting

According to the literature, certain conditions must be met in order for individualized pay setting to function satisfactorily. It has, for example, been shown that it is important that employees believe that differences in performance should be reflected by pay differences, that employees' pay reflects their work effort, that employees in fact can affect their pay by altering their performance and, last but not least, that their pay is contingent on how well they perform according to the pre-set pay criteria (Jenkins,

Mitra, Gupta, & Shaw, 1998; Pfeffer, 1997). Previous studies have found that employees are less willing to exert themselves if the connection between pay and performance is missing or weak, since their efforts would not lead to desirable results (Kohn, 2001; Pfeffer, 2001). If one gender believes that their ability to produce good work results is better than that of the other gender, their degree of satisfaction with their pay raises or pay situation in general may even vary.

The degree of confidence individuals have in their own capacity to do what they have set out to do, known as self-efficacy (Bandura, 1997), has been found to have an impact on individuals' career decisions and achievements (Mizell, 1999). Self-efficacy may also affect individuals' notions of how large of a pay raise they believe they are entitled to, as well as have an effect on the degree of self-confidence that lies behind the arguments that employees present during pay discussions. It has been shown that men's self-rated performance and self-efficacy tend to be greater than women's, which is attributed to how the genders are socialized into their respective gender roles (e.g., Bandura, 1997; Gecas, 1989). During their upbringing, males are to a greater extent encouraged to become more instrumental and task-oriented by developing their agentic qualities, which include self-assertiveness, self-expression, and the desire to control things. Women, on the other hand, develop more communal qualities (known as social-emotional or expressive qualities), which include selflessness, having consideration for others, and wishing to be in agreement with others (Lueptow, 2005).

Behaviors are often classified as either typically female or typically male, and stereotypically female qualities are rated lower than stereotypically male qualities (Eagly & Sczesny, 2009). Accordingly, the sexes are judged differently and also act differently in a given situation, based on the external (the surroundings') and internal (the individual's own) expectations that apply to how women and men should behave in various contexts (Eagly, 1987; Eagly & Sczesny, 2009). Previous research has, for example, shown that men are expected to not only be more competitive and proactive than women, but also more goal-oriented and self-promoting (Kray, Galinsky, & Thompson, 2001). Other research has found that women, on the other hand, are expected to be more unselfish, as well as social and group-oriented to a greater extent (Eagly, Makhijani, & Klonsky, 1992). Such differences in how the sexes are expected to behave would be likely to have an impact on the outcomes from an individualized pay system in which each individual is expected to promote themselves and their own merits in order to obtain pay raises.

Studies have found that employees in less powerful positions are often more reluctant, than those who have more power, to participate in meetings in which discord could potentially result or in which they would have to try to get something from someone else, such as a pay raise (Morand, 2000).

This hesitancy to take part in such meetings may perhaps apply to women and performance reviews, since men generally are more powerful and hold higher status positions in society than women (Brown, 1979; Mählck, 2001, 2004). Male attributes are also associated with high status and greater competence (Olsson, 1999). There are investigations which show that individuals with high status are expected to be more competent, to be better performers, and to possess a greater number of appealing attributes than low status individuals. High status individuals also receive more opportunities to perform well and are therefore more influential (cf. Hultin & Szulkin, 2003; Berger, Rosenholtz, & Zelditch, 1980). Support for this has been found in a number of studies in which the men were considered to be more competent and their performance to be of more value, compared to the women (see, e.g., Biernat, 2003; Olsson, 1999). In addition, previous research has shown that men more often judge themselves to be capable of performing better than do women. Accordingly, this might lead men to believe that they deserve higher pay, which studies have also shown to be the case (Herman & Betz, 2004). Sweden, like the other Nordic countries, is often considered to be one of the more progressive countries in the world when it comes to family-oriented public policies and gender equality (Acker, 1994; Haavind & Magnusson, 2005). Despite this, there does not seem to be any empirical evidence that the documented stereotypes and beliefs about how women and men are expected to behave are different from those of other countries in the western world (Eagly & Szcesny, 2009), that these beliefs do not correspond with traditional ones (Johansson, 1998; Olsson, 1999; Fullagar, Sverke, Sumer, & Slick, 2003), or that the mechanisms of unequal pay and access to organizational power differ in any significant way between Swedish women and men in comparison to women and men in other western countries (Hultin, 2003; Hultin & Szulkin, 2003).

Gender-related differences regarding how women and men act in connection with the pay-setting process could likely have an effect on how supervisors distribute rewards and pay raises between the sexes. It has been shown in previous investigations that women and men use different strategies when arguing for a potential pay raise (Kaman & Hartel, 1994). Women employees tend to rely on a more systematic presentation of their qualifications, while the male employees are more ready and willing to jump in and ask for the pay they want without further discussion or attempts at argumentation. Women are also considered to be weaker than men in discussions, preferring to hold back their opinions rather than offending someone, whereas men tend to be more driving and self-serving (Johnson, 1994). Johnson (1994) also observed that women are more willing to cooperate than men, especially if a reward were promised for such behavior. The results indicate that women are more willing than men to give in to others' wishes and that they are persuadable and loyal in order to show reciprocity, whereas the men are more interested in successfully completing

the shared assignment. The above suggests that women and men might behave differently during performance reviews, which in turn may result in different financial outcomes.

Previous research has shown that what others think and believe about an individual's or group's abilities can be of relevance for their pay outcomes (Steele, 1997). If employees find that their group (e.g., women) is believed to be poorer at promoting itself in pay-setting contexts – and they also believe that such a preconception is true – they will end up performing at a lower level and receiving less pay (Steele, 1997). A job applicant's expectations about how well he or she will succeed in a performance review has been found to be strongly related to the amount of pay he or she is offered (Barron, 2003; Major et al., 1993). Low expectations lead to individuals not asking for as much pay as they might otherwise, which in turn affects their financial outcomes negatively.

There is a risk that individuals' preconceptions in this matter may become self-fulfilling prophecies by hindering them from obtaining more lucrative financial outcomes from performance reviews or employment interviews (Hojat et al., 2000). Men generally have greater expectations in regard to their pay than women – which results in both higher pay and higher pay raises (Kaman & Hartel, 1994). Women's lower expectations – in regard to both their own ability to promote themselves in the pay-setting context as well as the pay results – may end up limiting their opportunities for successfully benefiting from an individualized pay system. In studies, women have exhibited doubt over their ability (and desire) to promote themselves to the same degree as the men do in connection with individualized pay setting, mainly since they believe that men usually are better at asserting themselves during pay discussions (Barron, 2003; Steele, 1997). These apprehensions have been confirmed by a number of investigations in which men were found to have an easier time discussing pay raises (e.g., Deaux, 1984; Kaman & Hartel, 1994; Kray et al., 2001).

It is important that employees feel that the organization is carrying out the pay-setting process in a non-biased manner that does not discriminate between women and men, since pay raises and evaluations of employees' work performance that are not carried out in an objective or consistent manner have been shown to have a strong negative influence on the attitudes, feelings, and behavior of the employees affected (e.g., Barclay et al., 2005; Colquitt et al., 2001; Olsson, 1999; Tyler & Lind, 1992). Previous studies have found evidence that women to a greater degree think it is important that the policies which regulate the individualized pay-distribution process are believed to be firmly in effect and non-discriminatory (Sweeney & McFarlin, 1997). If female employees perceive that their male colleagues with similar qualifications and performance levels often receive greater pay raises or are to a greater extent favored by an individualized pay system, it

would likely affect their perceptions of whether pay-related gender equality exists and in turn have an impact on their opinions of the pay system itself.

# Summary of studies

## Study I: Attitudes toward individualized pay among human service workers in the public sector

### **Objectives**

The purpose of this study was to investigate what role a number of factors play in relation to pay attitudes (pay equity, pay satisfaction, attitudes towards individualized pay, and preferences for pay bargaining at a local level). The predictors comprised demographics (age and tenure), performance-related factors (receiving pay-for-performance, experiencing performance differences between co-workers), and characteristics of the work environment (role overload, autonomy, job challenge, feedback, and job satisfaction).

### **Sample**

Data was collected from among assistant nurses affiliated with the Swedish Municipal Workers' Union (Kommunal). Randomly selected from the national membership roster of the union, a total of 800 questionnaires were mailed to the nurses' home addresses. A total of 581 usable questionnaires were returned, which gave a response rate of 74.5 percent (the effective sample was 491 individuals after listwise correction for internal attrition). The respondents' mean age was 45 years (SD=11), their average tenure was 14 years (SD=7), and the proportion of women was 96 percent.

### **Data analysis**

The data was analyzed through multiple regression analysis, which examined the importance of the work- and pay-related factors in relation to the employees' pay attitudes.

### **Findings**

Pay equity was significantly predicted by seven variables: age, pay-for-performance, feedback, and job satisfaction showed a positive relationship

with pay equity, while performance differences, role overload, and job challenge evidenced a negative relationship. Organizational tenure and autonomy were the only two independent variables that did not predict pay equity. In total, 12 percent of the variance in pay equity was explained. Two variables, in particular, were predictive of pay satisfaction, namely pay-for-performance, which displayed a positive relationship, and role overload, which was negatively related to the criterion. The remaining predictors failed to reach significance. Altogether, 11 percent of the variance in pay satisfaction could be accounted for by the predictors. Although the factors relating to demographics, performance, and work environment predicted more specific attitudes towards the financial outcome, the results concerning attitudes towards the pay system in general displayed a somewhat different pattern. The only factors predicting the attitudes towards individualized pay systems were organizational tenure, pay-for-performance, and performance differences. The latter two were positively related to this outcome, whereas organizational tenure was negatively associated. In total, 15 percent of the variance in attitudes towards individualized pay was explained by the predictors. Only age and performance differences significantly predicted local preferences. Age showed a negative association with the criterion, whereas performance differences displayed a positive relationship with the criterion. Taken together, 8 percent of the variance in local preferences was accounted for by the predictors.

## **Conclusions**

It appears that a clear connection between performance and pay is essential to employees' attitudes toward individualized pay. This is indicated in the results where the employees' perceptions of whether their pay was contingent on how well they performed and whether they perceived that there were performance differences among the employees at their workplace emerged as the most important predictors.

Interestingly enough, it appears that employees who perceive performance differences among their co-workers with similar work tasks feel that their rewards are less equitable, despite reporting positive attitudes towards individualized pay setting and towards salaries being determined on a local level. It may be that employees who consider their own performance to be better than that of their co-workers want performance differences to be taken into account and rewarded, even if they are not satisfied with how the system works at present. This might result in individuals questioning the efficiency of the individualized pay-setting system. Concerning the more specific attitudes towards the individual's own pay outcome, several work environment factors (feedback, job challenge, and role overload) emerged as significant predictors for whether employees perceived that pay was fairly distributed among those at their workplace, which could be an indication that

employee attitudes are very much shaped by the employers. This implies that employers are able to positively influence employee attitudes towards the pay system itself as well as their attitudes towards the financial outcomes by changing how work is organized and how the pay-setting system is put into practice.

## Study II: Perceptions of justice in connection with individualized pay setting

### **Objectives**

The overall aim of the second study was to increase our knowledge of pay-related justice by focusing on four types of justice (distributive, procedural, interpersonal, and informational). More specifically, the first objective was to investigate what role demographics, work climate factors, and factors related to the pay-setting process play in relation to employees' perceptions of pay-related justice. The second objective was to investigate whether these justice dimensions predict employees' levels of various indicators of work-related attitudes and behaviors (job satisfaction, organizational commitment, turnover intention, performance, and pay satisfaction), after controlling for demographics, work climate, and pay-related factors. The potential mediating effect of the justice dimensions on the outcomes described above was also tested, in terms of whether work climate and pay-related attitudes affected the outcomes indirectly through justice perceptions. As a prerequisite for these tests, the dimensionality of the measure of pay justice perceptions was tested.

### **Sample**

Registered nurses and assistant nurses employed by county councils (the regional authorities responsible for public healthcare) throughout Sweden were randomly chosen from a nationally representative sample for a postal survey. 1190 questionnaires were sent to the nurses' homes in the spring of 2004, and 809 questionnaires were returned (68 % response rate). The effective sample was reduced to 539 individuals due to internal attrition. The proportion of women was 89 percent, the mean age 48 years ( $SD=10$ ), and the average employment tenure was 19 years ( $SD=12$ ).

### **Data analysis**

The 20 justice items used were originally developed by Colquitt (2001) and were adapted to measure justice perceptions related to the pay-setting

process. These items were subjected to a confirmatory factor analysis, where the covariance matrix was analyzed in Lisrel 8.7 (Jöreskog & Sörbom, 2001). A series of hierarchic multiple regression analyses were conducted in order to assess the relative importance of work climate and pay-related factors for the four dimensions of justice. The variables were entered in three pre-determined steps, where demographics were entered as control variables in the first step, work climate variables were entered in the second step, and pay-related factors were entered in the last step. Hierarchic multiple regression analyses were also used to test the second objective, concerning the prediction of work-related attitudes and behavior. For these analyses, demographics, work-climate variables, and pay-related factors were treated as independent variables and entered in the first step to assess their relationships with the dependent variables. The four pay justice dimensions were treated as intervening variables and entered in the second step in order to investigate whether they contributed to the variance explained in the outcomes and whether they mediated the effects of the independent variables.

## **Findings**

The results of the confirmatory factor analysis of the justice items showed that the hypothesized four-factor model (distributive, procedural, interpersonal, and informational justice) provided a better fit to the data when compared to a three-dimensional solution (distributive, procedural, and interactional [i.e., interpersonal and informational] justice), a two-factor model (distributive/procedural vs. interpersonal/informational justice), a uni-factor solution (all items measuring a global aspect of justice), and a structural null model.

For the first objective, regarding the prediction of different justice perceptions, the results showed that the most important predictors were found among the work climate factors. Feedback was a strong and significant predictor of all four types of justice, while workload was negatively related to all of the justice dimensions except interpersonal justice. Pay-related factors were also shown to be of importance in the results, including gender equality in particular, which exhibited a positive relation to all four justice dimensions. Knowledge of the pay criteria was also positively related to all justice dimensions with the exception of interpersonal justice. Pay level was significantly related to perceptions of distributive and procedural justice, and participating in performance reviews was positively related to procedural and informational justice. The results also showed that younger employees perceived the pay-setting procedures to be fairer than the older workers did, and that the women in general perceived higher levels of pay justice than the men.

The results relating to the second objective (the investigation of whether justice perceptions were related to the outcomes when demographics, work climate, and pay-related factors were taken into account) showed that distributive justice was positively related to commitment, performance, and pay satisfaction. Interpersonal justice was also positively related to job satisfaction as well as negatively related to turnover intention. The results suggest that the unique effects of justice perceptions on the outcomes (job satisfaction, organizational commitment, turnover intention, performance, and pay satisfaction) – after considering the effects of the control variables – were marginal. The results also showed that pay satisfaction was indirectly affected by demographics, work climate, and pay-related factors, the effects of which were partially mediated by the justice factors.

## **Conclusions**

The fact that feedback, gender equality, workload, and knowledge of pay criteria were the most salient predictors of pay justice perceptions indicates that employees' awareness and understanding of the organization's expectations regarding what the pay criteria are and how they are to be fulfilled, along with the degree of equal opportunity employees have to fulfill them, are important preconditions for the pay-setting process to be perceived as fair. Regarding the second objective of this study, having pay distributed in a fair manner that takes work results into account (distributive justice) and being treated fairly by supervisors (interpersonal justice) were two important factors for employees' perceptions of general pay satisfaction, even if justice was only marginally related to the work-related attitudes and behaviors and had no major mediating effect. The study results supported the notion that justice can be operationalized as four separate dimensions (distributive, procedural, informational, and interpersonal). Altogether, the results of the study indicate that it is possible for organizations to proactively affect perceptions related to the pay-setting process, for example, by ensuring that pay-setting supervisors treat female and male employees equally and respectfully in order to prevent them from feeling discriminated against and by making sure that the employees are informed and accepting of the pay criteria. Employers should also make sure to use a rationale for pay-setting decisions that is perceived as adequate and well-founded by the employees, which can contribute to more positive perceptions of pay-related justice.

## Study III: Gender equality and the individualised pay-setting process

### **Objectives**

The third study was descriptive and aimed to increase our understanding of how women and men view different parts of the pay-setting process. This was achieved by asking women and men questions about their perceptions of the pay-related policies of the organization, the pay criteria used, the perceived connection between pay and performance, their attitudes toward individualized pay-setting, and whether they thought that this system granted women and men equal opportunities to affect their pay development.

### **Sample**

The data for Study III was gathered from a random sample of civil servants employed by the Swedish government, who were working in various types of white-collar jobs across Sweden (administrators, educators, and governmental representatives). The sample, which was gender balanced, consisted of employees who performed relatively similar tasks that entailed client contact and administrative responsibilities, among other things, but which excluded any management duties. Questionnaires were sent to the home addresses of a total of 2250 employees, and 1541 questionnaires were returned, which gave a response rate of 67 percent. The mean age was 46, and women made up 51 percent of the sample.

### **Data analysis**

Data was analyzed by investigating the differences between women and men's perceptions of the individual pay-setting process, using t-tests for the differences in mean levels and chi-square tests for the differences in frequencies.

### **Findings**

The results showed that there were only modest gender differences in regard to how the respondents rated the clarity of organizational goals and pay-setting policies. The mean levels suggested that the organizations had communicated their goals relatively well, while the respondents' answers suggested that the pay-setting policies could be communicated more explicitly. The majority of both women and men indicated that they had positive attitudes toward individualized pay-setting, and that they were of the opinion that performance differences should be reflected in differences in

pay levels. Both women and men gave high ratings to their own performances, while viewing their possibilities of affecting their own pay as limited. Women participated in performance reviews to a greater extent than men, and they were also more positively disposed to the performance assessment associated with the pay-setting process than were the men.

The majority of both women and men reported that they had a rather good knowledge of the pay criteria used in the pay-setting process, but when they were asked to rank what pay criteria they felt were prioritized by the organization, some gender differences appeared. The women and the men both listed *cooperation skills* and *formal education* as the two factors that the organization found most important, but when it came to the third most important, the women placed *the way one handles clients* in this position, while the men chose *amount of responsibilities*. The most striking gender differences emerged in connection with the questions concerning whether women or men were favored by individualized pay-setting and which gender group had an easier time discussing pay-related matters with supervisors. Nearly all of the women reported that the men were both better at discussing pay-related matters and favored by the system, while the men reported that they did not believe that either of the groups were more favored by the system or had an easier time with pay discussions. Extremely few participants reported that they thought that women would be favored by the system or have easier pay discussions than men. The men also reported perceiving significantly higher levels of pay-related gender equality than the women. Both the women and men reported relatively low levels of pay satisfaction, which suggests that both genders were dissatisfied to some extent. The men were marginally more dissatisfied with their pay level than women.

## Conclusions

Although the results of the study suggest that, overall, women and men have similar perceptions of the individualized pay-setting system, some specific and important differences emerged regarding the expectations that women and men have about what individualized pay setting may entail for their own gender group. The differences that were found in regard to how women and men prioritized the various pay criteria could lead to women and men not putting their efforts into the same areas – which would lead to differences in their results. The weak connection between work results and rewards, as perceived by the participants, may mean that individualized pay setting is not sufficiently serving as the incentive it is intended to be. Despite the fact that the study did not investigate the potential repercussions of a situation in which individualized pay was not providing equal opportunity for both men and women, it is plausible that the women's more negative view of pay-related gender equality, along with their low expectations of being able to

negotiate their pay as successfully as men, may have a detrimental effect on their pay development. The overview presented in this study may serve as a foundation for more specific investigations into pay-related gender equality.

# Discussion

In recent decades the use of various types of individualized pay setting has increased dramatically within organizations (Bender & Elliot, 2003; OECD, 2005). Despite the fact that earlier research has found that the pay-setting process constitutes an essential aspect of the work environment and that it could affect the attitudes and feelings of employees (Adams, 1965; Greenberg, 1993b, 2004, 2006; Williams et al., 2006), relatively few studies have attempted to investigate how employees' pay perceptions are shaped. The main objective of the present thesis was to increase our knowledge about the factors which influence employees' attitudes in connection with the individualized pay-setting process. More specifically, the studies in this thesis investigated (1) several of the key factors that contribute to employee pay attitudes, (2) which factors could be of importance for the pay-related justice perceptions of employees, and (3) if there are differences between men's and women's perceptions of the individualized pay-setting process.

## Pay attitudes

In the first study, the purpose was to identify the factors that could influence pay attitudes, including the attitudes specifically regarding satisfaction with the amount of pay received (i.e., pay equity and pay satisfaction), and more general attitudes toward the individualized pay system and the level at which employees prefer their pay raises to be determined, whether it be more locally (by a pay-setting supervisor) or more centrally (through an agreement between labor market parties). The predictors were divided into three blocks: performance-related factors that concerned whether employees perceived that they were paid according to their performance and whether they perceived performance differences between employees with similar work tasks; the work climate factors of role overload, autonomy, job challenge, feedback, and job satisfaction; and the individual factors of age and organizational tenure.

The results showed that the performance-related factors were of relatively great importance for attitudes toward the pay system. The employees who stated that their pay raises were largely related to their performance reported higher levels of pay satisfaction and pay equity and had a more positive attitude towards the individualized pay system. That it is important for

employees to perceive a clear connection between work performance and reward in order to have a positive attitude towards an individualized pay system has been observed in earlier studies as well (Miclei & Lane, 1991; Mulvey et al., 2002). The second performance-related factor, regarding performance differences among colleagues with similar work tasks, was found to be positively associated with attitudes towards the pay system. In accordance with previous findings (e.g., Mannheim & Angel, 1986), the greater the extent of performance differences perceived, the more positive the attitudes were towards individualized pay and towards having pay determined at a more local level. It was also observed that perceptions of performance differences were negatively related to pay equity, which may indicate that employees who perceive that their co-workers perform differently do prefer individualized pay setting but wish that their employers were better at allocating employee pay in a manner which reflects each individual's work performance.

The results also revealed that a number of work climate factors exhibited an association with more specific attitudes toward employee's personal financial outcome, especially pay equity. Employees who perceived that they had a high workload or that their job was challenging reported lower levels of pay equity and pay satisfaction, which has been found in previous studies (Daly & Geyer, 1994). Furthermore, job satisfaction showed a positive relation with pay equity. The finding that employees who are satisfied with their work also tend to be more satisfied with how pay is distributed in their organization has also been observed in other investigations (see, e.g., Quarstein, McAfee, & Glassman, 1992). To receive feedback from a supervisor about one's standing at work was shown to have a positive influence on perceptions of pay equity; this may be due to the fact that feedback tends to improve employees' sense of involvement in the pay-setting process, which may in turn lead to more realistic expectations about the outcomes (Williams et al., 2006). Autonomy was the only work environment factor that did not exhibit an association with pay attitudes, which was somewhat surprising since high degrees of autonomy have previously been found to have positive associations with attitudes towards individualized pay (Montemayor, 1995) and attitudes towards pay levels (Williams et al., 2006). Autonomy, however, correlated strongly with the other predictors, which may explain why it was not predictive of the outcome variables. Another unexpected result was that the included work factors only exhibited associations with pay equity and pay satisfaction and did not, in contrast to previous research, predict attitudes towards individualized pay setting (e.g., Dierdorff & Surface, 2008; Lawler, Jenkins, Dunnette, & Hough, 1992). The present study indicates that certain kinds of factors may be of more importance for certain attitudes, since performance-related factors were better predictors of attitudes toward the pay system, and

work environment factors were more predictive of attitudes toward personal earnings.

Regarding individual factors, age was observed to be positively related to pay equity, as older employees reported higher levels of pay equity (in comparison to what others in the organization earned) than did younger employees. This finding may likely have been influenced by the fact that older employees typically earn more than their younger colleagues (National Mediation Office Records, 2008). Also, older employees with longer tenure were found to be more hesitant towards individualized pay setting, which is also in line with earlier research (e.g., Lawler, 1971; Wallenberg, 2000). One possible explanation for this is that individualized pay systems do not reward older or long-time employees automatically as is the case with more traditional pay systems, but, rather, require that employees perform at a satisfactory level in order to meet the prioritized pay criteria and thus earn their pay raises. The fact that older employees may have experienced both traditional and individualized pay systems would also enable them to compare and decide which of the two is best suited for them.

## Pay-related justice

The main purpose of the second study of this thesis was to investigate if factors related to employees' work climate (feedback, goal clarity, autonomy, and workload) and the pay-setting process (salary level, knowledge of pay criteria, performance review attendance, evaluation discomfort, and gender equality) could predict their perceptions of pay justice (distributive, procedural, interpersonal, and informational justice), after taking individual factors into consideration (gender, occupation, full- or part-time employment, and supervisory status). With such an objective in mind, an investigation of whether Colquitt's (2001) measure of organizational justice could be applied in the pay context was considered essential for this study. The dimensionality of the measurement instrument was investigated, and support was found for the notion that the concept of justice consists of, and can be investigated in terms of, four distinct dimensions, and that it is applicable for studies of pay justice.

The study also indicated that the included work climate factors were relatively strong predictors of employees' justice perceptions. Within this block of predictors, feedback emerged as one of the most crucial variables, as it was positively associated with all four justice dimensions. Similar results have been found in other studies where open communication from supervisors and clear explanations about what their standing is in regard to an upcoming pay decision have been found to increase employees' insight into the pay-setting process and the degree to which they perceive that the pay-setting process is conducted fairly (Greenberg, 2004). The results also

suggest that the greater the goal clarity employees perceive, the more positive their perceptions are of aspects of interpersonal and informational justice. Autonomy did not exhibit any significant associations with the outcome variables, which is a finding that differs from earlier studies in which control over how work is organized was observed to be a predictor of perceptions of justice related to pay setting (Mueller, Iverson, & Jo, 1999). Another finding was that perceived workload showed a negative association with all of the justice dimensions except interpersonal justice. This may indicate that employees with high workloads may not always feel that they are being sufficiently rewarded for their efforts. Some theories suggest that employees who feel that they are not being properly rewarded for their work efforts are less apt to regard the pay setting as being conducted fairly (see, e.g., Adams, 1965; Folger & Konovsky, 1989).

When it comes to the influence of pay-related factors on the justice perceptions of employees, the results showed that monthly pay was positively related to distributive and procedural justice. What this suggests is that the higher the employees' pay was, the more just they perceived the pay-setting process and their financial outcomes to be, which has also been indicated in other empirical studies (Colquitt & Chertkoff, 2002; Greenberg, 1993b). It should be noted, however, that, as was the case in these studies, pay level did not predict informational or interpersonal justice. The study also indicates that the perception of pay-related gender equality was an important predictor of employees' general perceptions of pay justice, as it exhibited a positive association with all four justice dimensions. Knowledge of pay criteria and attending performance reviews both showed positive associations with procedural and informational justice in particular, which may indicate, as in earlier studies, that it is important for employees to both receive the opportunity to discuss pay-related questions and also receive information about the reasoning behind the pay decisions in order for the pay decisions to be regarded as fair (Bies, Martin, & Brockner, 1993; Granqvist & Regnér, 2008; Holbrook, 1999). In the present study, it was also observed that the employees who experienced evaluation discomfort before a pay discussion in which their work performance was to be judged also reported lower levels of interpersonal justice, which is in line with previous studies that found that employees' perceptions relating to performance appraisals can affect their perceptions of justice (Flint, 1999; Fulk, Brief, & Barr, 1985; Levy & Williams, 2004; Weiss & Cropanzano, 1996).

In regard to the control variables, women reported higher levels of pay justice than men in respect to all of the dimensions except interpersonal justice, which is in line with previous studies (see, e.g., Brockner & Adsit, 1986; Greenberg, 1990; Williams et al., 2006). Furthermore, the results indicate that older employees are to a greater extent dissatisfied with the extent of justice in the process itself and in the procedures that led to the pay-raise decisions, as compared to younger employees. The employees'

supervisory status and whether they were employed full- or part-time did not demonstrate any significant associations with the outcome variables. However, participants with higher rank, such as registered nurses, reported lower levels of distributive justice than the assistant nurses did. Altogether, individual factors were only found to be marginally associated with the respondents' justice perceptions.

Another purpose of the study was to investigate whether pay justice, as represented by the four justice dimensions, could predict employees' work-related attitudes and behavior (job satisfaction, organizational commitment, turnover intention, performance, and pay satisfaction) when work climate effects and factors of the pay-setting process were taken into account. Along with this, it was possible to also explore whether justice perceptions mediated the effects of work climate and pay-related factors on employees' attitudes and behaviors.

Among the work climate factors, goal clarity, feedback, and knowledge of the pay criteria emerged as the most important explanatory variables due to their positive associations with the majority of the outcomes. The results also showed that those participants who reported having higher levels of autonomy and perceiving that they were able to influence how their work was arranged, also reported higher levels on all of the outcome variables. The above associations have also been observed in earlier meta-analytic studies in the areas of job satisfaction (Loher, Noe, Moeller, & Fitzgerald, 1985), organizational commitment (Mathieu & Zajac, 1990), turnover intention (Griffeth, Hom, & Gaertner, 2000), performance (Fried, 1991), and pay satisfaction (Williams et al., 2006). Also according to the results, employees' performance was negatively associated with evaluation discomfort, which is supported in previous studies (cf. Flint, 1999; Meyer, Kay, & French, 1965). The reason for this may be that those employees who feel uneasy about an upcoming evaluation may also be among those who do not perform at a high level.

The results regarding individual factors revealed that the women reported having more positive work-related attitudes and behavior than their male counterparts. The fact that women tend to be more satisfied with their work and their pay has also been observed in previous studies (Williams et al., 2006). The participants who perceived greater pay-related gender equality also reported experiencing higher levels of both commitment and pay satisfaction, as well as lower levels of turnover attention, as has also been found in earlier studies (Amabile, 2001; Jones, 1998; Porter et al., 2003; Tekleab et al., 2005).

After taking into consideration the impact that work climate factors, factors related to the pay process, and individual factors had on the outcomes, the results indicate that interpersonal justice predicts higher job satisfaction and lower turnover intentions, which has also been found in previous studies (Colquitt et al., 2001). Positive perceptions of distributive

justice exhibited a strong positive association with pay satisfaction, indicating that employees who perceived that their pay was relatively fair were also more satisfied with it; this association has been observed in previous investigations (e.g., Folger & Konovsky, 1989). It was also found that pay justice partially mediated the effects that the work climate and pay factors had on pay satisfaction, which indicates that the satisfaction employees experience in regard to their pay is shaped by their perceptions of whether the pay is distributed fairly. The relative lack of significant effects of other pay justice dimensions on employee work attitudes and behavior may seem unexpected given previous research. In, for instance, Colquitt et al.'s (2001) meta-analytic study, the bivariate meta-correlations between almost all justice dimensions and the outcomes were of magnitudes similar to the ones found in the present study. It should, however, be noted that Colquitt et al.'s (2001) regression analyses, in contrast to the present study, did not control for any additional explanatory factors. The larger number of predictors that were used in the present study may have prevented overestimations of the effects of justice. Otherwise, it could be that the use of such a conservative statistical procedure may have led to underestimations of the impact of justice perceptions on employee attitudes and behavior.

Altogether, the results of Study II indicate that employees' justice perceptions regarding the pay-setting process, as well as their work-related attitudes and behavior, are chiefly connected to factors in their work climate. In addition, employees' justice perceptions seem to be associated with the quality of supervisors' communication concerning work performance and how the work is supposed to progress, as well as whether the pay-setting process is discriminatory, if the workload is suitable, and what degree of influence employees have over how their work is organized and carried out.

## A gender perspective on pay perceptions

The third study was descriptive and aimed at increasing our knowledge of how women and men perceive the individualized pay-setting process. The questions concerned their performance review attendance, self-reported performance, attitudes toward performance assessments and individualized pay setting, as well as whether differences in performance should result in pay differences. Moreover, the participants were also questioned about their awareness of the organizational goals, pay policies, and pay criteria, as well as about their perceptions of pay satisfaction, pay being based on performance, their possibilities of affecting their pay, pay-related gender equality, and whether the individualized pay system allowed equal opportunities for women and men.

It was found that both the women and the men were predominantly positive towards the individualized pay system. The results also revealed that

the majority of the participants believed that employees should be rewarded on the basis of their performance. The respondents expressed that they wished their pay raises were more clearly related to their individual work results. Furthermore, most of the respondents were positive towards having their work efforts evaluated, with women expressing slightly more support for it, which is a finding that has been observed in previous research (see, e.g., Morand, 2000). The results indicated that neither the women nor the men felt any considerable degree of uneasiness over pay evaluations. Only about half of the respondents partook regularly in pay discussions, with women taking part a little more often than men. The women and the men in the study both reported that their knowledge of the organizational goals was relatively good.

When the participants were asked about what pay criteria they believed the organization *should* prioritize, the exact order varied between the genders, but the same criteria appeared among the top three for both genders. The criteria that the participants believed that pay raises *were* based on differed somewhat between women and men. No gender-related differences emerged regarding the participants' self-reported work performance, as the women and the men both perceived that they performed at high levels. The women, to a greater extent than the men, believed that their pay raises were based on how well they performed in terms of the quality of their work results, whereas the men, to a greater extent than the women, believed that their pay was based on how hard they worked. It has been found in previous research that employees generally try to meet the pay criteria that the employer appears to prioritize and that lead to rewards (Kaman & Hartel, 1994; Kohn, 2001; Stevens, Bavetta, & Gist, 1993). Employees' perceptions of how the employer prioritizes various work tasks can therefore be of importance for determining what the employees set out to accomplish and what they dedicate the most energies towards (Locke & Latham, 2002; Martocchio, 2006). If women and men have differing perceptions about what is to be rewarded and what they believe the employer prioritizes, it may result in these groups directing their efforts in different directions, which may in turn affect their pay growth differently (Hojat et al., 2000).

The women and men in this study reported that their possibilities of affecting their pay growth were relatively limited. This finding is worth mentioning since previous research has shown how essential it is for employees to perceive that they are able to affect their pay by fulfilling certain pay criteria in order for individualized pay setting to serve as an incentive for, for example, increased performance (Heneman et al., 2000; Lawler, 2000). The low levels of pay satisfaction that were reported may perhaps be an expression of their general dissatisfaction with their pay growth, or it could also imply that the respondents do not believe the pay-setting process is functioning as well as it should. The men reported that they were a little more dissatisfied with their pay situation, compared to the

women, which is in agreement with a large number of studies that have found that women tend to be more satisfied with their pay (Williams et al., 2006).

The most distinct gender differences were found in connection with whether the pay-setting process was conducted fairly in respect to gender and also with the question of whether women or men were considered to be more favored by individualized pay setting and whether one of the genders had an easier time with pay discussions. The results were relatively unambiguous, as the women in the study reported that they believed the men were favored and had an easier time with pay discussions, while the men reported that they did not believe that either of the genders were favored or had an easier time with such discussions. Only a very few of the participants were of the opinion that the women had more advantages in regard to pay setting than men. This perception is in line with other empirical investigations which found that men actually had an easier time discussing pay and were often able to negotiate higher pay raises than women (Barron, 2003; Deaux, 1984; Kaman & Hartel, 1994; Kray et al., 2001). The above results might also indicate that the men in the study – in contrast to the women – were less aware of the possible disparities regarding pay setting (Freedman & Phillips, 1988). For example, compared to the women, the men reported that pay-related gender equality was much higher. In all, the results of Study III indicate that the perceptions of men and women can differ in regard to individualized pay setting and the advantages that each can potentially gain from such a system.

## Methodological considerations

Although this thesis has increased our knowledge of the attitudes and perceptions surrounding individualized pay setting, certain methodological considerations should be taken into account. One such consideration concerns the fact that the three studies were based on self-reports. Critics of the use of self-evaluations sometimes mention that individuals' perceptions of a phenomenon can be inaccurate when viewed in comparison to the objective situation (Spector, 1994). In the present thesis, however, the focus is specifically on individuals' subjective perceptions, which makes self-reports one of the most appropriate methods for gathering this type of data (e.g., Perrewé & Zellars, 1999). The three studies were based on questionnaire data, which poses a potential limitation, since the associations may appear stronger in mono-method studies (Campbell & Fiske, 1959; Spector, 1994). Although it has been suggested in recent years that the risks of common method variance may be somewhat exaggerated, the potential problems should not be underestimated (Spector, 2006). Given this, it is possible that the validity of the results could be confirmed by replicating the

investigation and also including other types of data such as objective measures of performance. To reach a more in-depth understanding of how individuals' perceptions in connection with the individual pay system are shaped, it may be productive to also include qualitative data as a complement to the quantitative.

Due to the cross-sectional design of the three studies, it is not possible to draw any causal conclusions (Bollen, 1989; Shadish, Cook, & Campbell, 2002). To determine the direction of the relation between two variables: (1) the two variables must correlate with each other, (2) the independent variable must precede the dependent variable, and (3) the relation cannot be influenced by other factors. The first condition can be established through simple correlation analysis and the second can often be supported through the use of longitudinal study designs, while the third condition is essentially impossible to ensure (Bollen, 1989). While the relations between the variables were investigated in the three studies, none of the other conditions were met. The tests for these relations between the predictors and the outcome variables – which also includes the tests for mediation in Study II – were, however, based on established theories and empirical methods which have suggested that individuals' perceptions of the pay-setting process can lead to differing attitudes towards pay (Summers & DeNisi, 1990, Williams et al., 2006) and justice perceptions (Ambrose, Harland, & Kulik, 1991; Colquitt et al., 2001; Cropanzano & Greenberg, 1997; Mieceli & Lane, 1991). These causal limitations are also relevant in the case of mediation, which is used in Study II, since all variables were measured at the same time (cf. Baron & Kenny, 1986; McKinnon, Fairchild, & Fritz, 2007). Although cross-sectional studies can be seen as useful for showing the different relations and research areas that may be of interest for future studies (Spector, 1994), the results in this thesis would need to be replicated using longitudinal data. For example, it would be interesting to examine an organization before and after pay reviews took place, in order to be able to measure any changes in employee pay perceptions that occurred.

When it comes to external validity, there are several aspects that should be taken into account. Since the participants in the studies of this thesis consisted of public employees within the healthcare and public service sectors in Sweden, the possibilities of generalizing the results of this thesis to other cultures, occupational groups, and sectors may be limited. On the other hand, having a limited number of occupations and organizations, as in this thesis, can make it easier to control for and analyze the factors that influence individuals and facilitate the interpretation of the results (cf. de Jonge et al., 2001). It is also quite possible that certain types of people are drawn to certain types of occupations and occupational areas (Miller & West, 1993). If this is true, then there is a possibility that the relations between the explanatory variables and pay attitudes might have been different if the sample had consisted of a cross-sectional selection of employees from a

variety of branches and organizations, even though there is little empirical evidence that a person's disposition can affect the correlations in self reports (Spector, Zapf, Chen, & Frese, 2000; Spector, 2006).

Another consideration has to do with the choice to use listwise deletion; although a recognized procedure, the effective samples of the three studies became somewhat small as compared to the sizes of the original samples. Even though missing data is a reality that all social scientists must face – regardless of whether it is due to non-participation, attrition, or internal missing values – it may affect the results in an unintended way (Bergman & Magnusson, 1990). Since the effective samples do not differ in terms of the participants' gender distribution or age, and the response rates could be considered relatively high (cf. Baruch & Holtom, 2008), the effective samples were regarded as satisfactory.

Another factor that could have influenced the results was the fact that only public employees were included in the studies, since organizational goals can differ between the public and private sectors. Organizations in the public sector often have multiple and vague objectives which are dictated by several parties through political processes (Boyle, 2001), whereas the general objective of private organizations is to generate a financial profit (Farnham & Horton, 1996). Accordingly, it may be more difficult for public employees to sort out, for example, what the organizational objectives are, which pay criteria are prioritized, and how work performance is connected to different rewards. It is therefore conceivable that the relations between the explanatory variables and the different pay attitudes would be weaker for public employees than for private employees. However, following the influence of New Public Management in recent decades, an 'enterprization' of the public sector has taken place, which has led to aspects such as management, competition, profit and loss accounting, as well as pay-setting processes being more often handled as they would be in the private sector, which could speak against the former mentioned presumption (Ferlie et al., 1996; Hood, 1995; Lundin & Söderholm, 1997). With the introduction of individualized pay systems regularly taking place at new workplaces, the main criteria for participation in the study were that respondents had similar organizational circumstances as well as a good deal of experience with individualized pay setting. It would nevertheless be beneficial to replicate the results using data that also includes other occupational areas and groups as well as other sectors. Another way to expand upon the present findings would be to take the prominent differences in how individualized pay systems actually operate in different countries into account, by conducting further national and international studies in which these differing systems are compared.

As in most studies, there may have been confounding variables that affected the results in some way, such as if the participants were supervisors or not. Supervisors might regard the pay-setting process from a somewhat

different perspective than employees, since supervisors in general are more responsible for how the process is carried out. Another potential confounder is work assignments, since different assignments could entail different types of goals and basic conditions for fulfilling the pay criteria, which in turn may affect employees' pay attitudes and perceptions of the pay system. Only a limited number of pay setting supervisors, however, were included in the studies, and the work assignments were fairly similar among the employees of each individual study. It would be beneficial to control for possible confounding factors such as these in future studies, in order to increase the validity of the conclusions.

## Theoretical implications and future research

The primary objective of the thesis was to shed more light on the factors that can influence pay attitudes and perceptions of pay justice regarding individualized pay setting in a Swedish context. The three studies comprising this thesis have investigated several types of perceptions that relate to the pay-setting process. Employees' attitudes towards the individualized pay system, perceptions of pay justice, and pay-related gender equality were studied.

As in other studies, it was found that the work climate and factors related to pay setting influenced the various attitudes (Greenberg et al., 2007; Stuhlmacher & Walters, 1999; Wagner & Moch, 1986; Williams et al., 2006). Employees' work situation was, for example, observed to be strongly associated with how fair they perceived the pay-setting process to be. Since individualized pay setting is often based on how well employees carry out their work, this thesis relied upon the well-established job characteristics that have been used for a long time within working life research (see, e.g., Hackman & Oldham, 1975). However, future research on the various types of pay-setting systems will soon have to adapt to the new conditions that are gradually taking over and which are going to have a growing influence on the work situations of employees. Employees, for instance, may find themselves more often working in temporary teams whose membership changes depending on the work task, having different supervisors for different work tasks, or working at a multitude of workplaces rather than mainly one (Oldham & Hackman, 2010). Some of the criticism that has been directed at the individualized pay system has been over the fact that it is not very suited for collaborative work or teamwork and that it may even create a competitive atmosphere through its rewarding of individual performance (Kohn, 2001; Pfeffer, 2001). Future studies are thus needed in order to attempt to anticipate what sort of impact these changing circumstances may end up having on the pay-setting process so that we can begin to figure out how the individualized pay system would need to be altered to suit the new

work climate. Furthermore, since there is a lack of knowledge about the different types of individualized pay setting that are used in Sweden (Neu, 2006), descriptive studies are called for to increase our awareness of which pay systems are in use. It would also be of interest to conduct a study that is based on both the pay-setting procedures and the work-related conditions affecting supervisors and employees in a particular organization and to use this information to investigate and increase our knowledge about how the various parts of the process affect employees' pay perceptions.

The present thesis found that the four dimensions of justice (distributive, procedural, interpersonal, and informational justice) are conceptually discrete, which supports earlier research findings (e.g., Colquitt, 2001). This thesis has not been concerned with examining the similarities and differences between the various pay-related perceptions and attitudes that were included in the studies. To better understand the potential interrelations between these concepts, future research will have to take a closer look at, for example, whether perceptions of pay justice and gender equality are connected and, if so, in what ways. Other conceivable research queries include whether employees' attitudes towards individualized pay systems depend on their justice perceptions, and whether perceptions of pay justice can predict employees' attitudes towards individualized pay.

Another area that emerged as essential for employee justice perceptions in this thesis comprises the factors that are connected to the pay-setting process itself, concerning gender equality, the clarity of the pay criteria, the level of opportunity to participate in performance reviews, and whether there is an explicit connection between pay raises and work results. It is likely that the abovementioned changes in employee work conditions will present a number of new challenges for pay-setting supervisors. The way in which individuals' work performances are evaluated and pay raises are differentiated among employees will likely need to be adjusted if a greater extent of the work is carried out in teams, as will the nature of feedback, if it becomes much less feasible for supervisors to be in a position where they can personally observe their employees' performance (Oldham & Hackman, 2010). An additional aspect that should be taken into consideration in regard to pay setting is that today's employees are to a greater extent employed within the service sector (Grant & Parker, 2009; Magnusson, 1999). Given the nature of the work performed within this sector, the question of what the most suitable pay criteria are on which to base pay raises has become more relevant. When individualized pay systems are based on the fulfillment of various pay criteria, and these criteria to a large extent direct how employees organize their work and prioritize work tasks (Pfeffer, 1997), it is important that the pay criteria represent the goals of the organization. Because the goals and work results of many service-related enterprises are often difficult to measure or define, formulating the appropriate pay criteria can be a complicated task for employers in this sector (Boyle, 2001; Kohn, 2001).

Within eldercare, for example, should workers who dedicate more time to easing the patients' loneliness be rewarded or should those who are able to check on the most patients during their work shift be rewarded? Future studies are needed in order find out more about the role that pay criteria have in shaping employees' work-related attitudes and behavior. While a number of studies have investigated methods for formulating pay criteria (see, e.g., Alsterdal & Wallenberg, 2005), more research is needed in this area.

In this thesis, the relations between individual factors and pay-related attitudes were studied after taking work climate and pay-setting factors into account. The results indicated that younger employees were more positive towards the individualized pay-setting system than older employees, while older employees were a little more satisfied with how they were rewarded for their work efforts than were the younger employees. But, otherwise, the results indicated that individual-related factors were only marginally related to employee pay attitudes, which may suggest that these factors are not especially important (Williams et al., 2006). It would, however, be interesting if future studies were to also investigate some of the other factors that might affect employees' perceptions of the pay-setting process, such as personal objectives, socioeconomic status, education, type of household, number of children, employment type, and ethnicity. Another interesting factor that might be of interest in the future concerns employees' core self-evaluations (CSE), defined as the "fundamental premises that individuals hold about themselves and their functioning in the world" (Judge, Erez, & Bono, 1998, p. 168). Since CSE have been found to predict personal financial outcomes (Judge & Hurst, 2007, 2008), they may have an effect on how employees perceive their pay. In recent years it has also been suggested that an individual's disposition may be of consequence for his or her attitudes and perceptions towards the pay-setting process (see, e.g., Colquitt, Scott, Judge, & Shaw, 2006; Lilly & Virick, 2006; Mueller & Plug, 2004), which may be worth exploring further.

Gender was an individual factor that seemed to be associated with most of the employees' pay-related justice perceptions in Study II, and was investigated in greater detail in the third study. The purpose was to investigate how the respective genders regarded the individualized pay-setting process and pay-related gender equality. An interesting paradox that emerged, which other studies have also observed in recent decades, was that the women tended to report higher levels of pay satisfaction (see, e.g., Bylsma & Major, 1994; Crosby, 1984; Sauser & York, 1978; Sweeney, McFarlin & Interrieden, 1990; Williams et al., 2006) and pay justice (see, e.g., Brockner & Adsit, 1986; Greenberg, 1990) than the men, despite the fact that the men's earnings in general are higher (see, e.g., National Mediation Office, 2008; OECD, 2005). One of the proposed explanations for this phenomenon is that employees may have a tendency to limit their frame of reference to those of the same gender who have similar work,

qualifications, and pay (Phelan, 1994). Studies have shown that this phenomenon can result in employees and their employers regarding their current workplace order as “the way it should be,” which ends up reinforcing pay-related gender differences (Barron, 2003; Jackson, 1989; Major, 1989). Another possible explanation is that women tend to have lower expectations than men in respect to their pay level and pay increases (Kaman & Hartel, 1994), which, conversely, might further suggest that the relatively higher expectations of the men may make them more prone to experiencing disappointment over financial outcomes – thus explaining why the men report lower pay satisfaction than women. Despite these plausible explanations, additional studies are needed in order to delve deeper into the potential causes of this phenomenon.

The results also showed that while there were a number of general similarities between how the women and the men viewed the pay-setting process, the women were considerably more pessimistic in regard to pay-related gender equality and in regard to their own possibilities of profiting from an individualized pay system as compared to the men, which confirms the findings of previous studies in this area (see, e.g., Acker, 1991; Alsterdal & Wallenberg, 2005; Barron, 2003; Steele, 1997; Wetterberg, 2002). It would therefore be interesting for future investigations to examine whether Swedish women’s (and men’s) expectations concerning their possibilities of benefiting from an individualized pay system may also lead to differences in their financial outcomes in the same way as has been found in North American studies (see, e.g., Barron, 2003; Steele, 1997; Stuhlmacher & Walters, 1999). Furthermore, it would be of interest to examine how employees’ subjective perceptions of their pay compare to their actual financial outcomes. Another area deserving of more attention concerns how those who conduct the evaluations in an individualized pay system (typically the pay-setting supervisors) regard the work abilities and skills of women and men, respectively, since these are the individuals who ultimately determine the distribution of rewards. There is previous research indicating that male supervisors act differently depending on whether they are interacting with female or male subordinates (e.g., Hultin, 2003; Hultin & Szulkin, 2003; Rosen & Jerdee, 1973, 1974). Other studies suggest that men, in general, are perceived as being more competent than women (Olsson, 1999). Furthermore, previous research also proposes that performance is often attributed to individual characteristics (e.g., abilities or skills) if the subject is a man, whereas the performance of women is often attributed to external factors (e.g., luck or market forces) (Eagly & Sczesny, 2009; Igbaria & Baroudi, 1995). It would also be interesting to explore whether certain gender combinations, in respect to the pay-setting supervisor and the petitioning employee, may be associated with differences in pay-setting outcomes in a Swedish context, since this has been found in many other parts of Europe and North America (Eagly & Sczesny, 2009).

Previous studies have shown that pay-related perceptions may be related to various outcomes in the forms of attitudes, feelings, and behavior (Barclay et al., 2005; Colquitt et al., 2001; Tyler & Lind, 1992). Whether perceptions of pay justice could affect individuals' work-related attitudes and behavior was investigated in Study II. After taking into account the work situation, how the pay-setting process was conducted, and various individual-related factors, the results indicated that justice perceptions were marginally associated with the outcomes the use of a rather conservative design in this study, where a large number of control variables were used in addition to the justice dimensions, may have resulted in an underestimation of the effects of the effects that pay-related justice perceptions had on the outcome variables. Despite the modest effects, the results do not necessarily imply that perceptions of pay justice are unimportant in these contexts, but rather that they should be regarded as one of a number of psychological and organizational explanations for individuals' attitudes and behavior (see, e.g., Greenberg, 2001; Leventhal, 1980; Shapiro, Kirkman, Greenberg, & Cropanzano, 2001; Taylor, 2001). More research needs to focus on expanding our knowledge about how pay justice and other pay attitudes stand up in comparison to other motivational forces. Given that people often presume that they will be treated in a fair and respectful manner (Folger & Cropanzano, 1998), it would be of interest to take a closer look at what happens to employees' work-related attitudes, behavior and psychological health when pay justice is considered to be low. These mechanisms might also relate to other theories that would be interesting to further explore in the future. One such theory is that of the psychological contract (Rousseau, 1989), which concerns how a breach of an implied contract – such as when a smaller pay raise than expected is received (a perceived injustice) – between employee and supervisor may affect employees' attitudes. Another potentially relevant theory is that which concerns social status (Adler, Epel, Castellazzo, & Ickovics, 2000). This theory holds that individuals define their own social status by evaluating a number of objective markers (income, education, gender) or by comparing their subjective perceptions of their status to the statuses of others. It has been found that having low status and perceived unfair circumstances, as a result of these evaluations, has strong associations with health and mortality (Adler & Rehkopf, 2008).

Although it was not the main focus of this thesis, the way in which supervisors handled pay setting was found to be of essential importance for employee perceptions, which also has been demonstrated in previous studies (Cobb & Frey, 1996; Greenberg, 1993a). In Study II, for example, the results indicated that supervisors' treatment of their employees during the pay-setting process seemed to play a role in whether the employees wish to remain in the organization when the treatment was perceived to be disrespectful and undignified to some degree (low interpersonal justice). Individualized pay setting requires that the pay-setting supervisors take on a

participatory role in the employees' work, besides demanding high degrees of social competence and conflict management skills (Pfeffer, 1997), as well as the ability to be objective and fair – despite the fact that those in this position often lack support and training (Skarlicki & Latham, 2005). A future research question then becomes whether these demands are reasonable and whether their fulfillment is a realistic possibility. Given the increased demands concerning personal interaction and communication between supervisors and employees that the individualized pay setting carries with it, future studies could also benefit from turning their attention to examining what role the supervisor–employee relationship may play in shaping employees' attitudes towards and perceptions of the pay-setting process.

## Concluding remarks

According to the three studies of this thesis, the overall impression is that employees generally seem to be positive towards individualized pay systems. However, a closer examination of the various aspects of the pay-setting process reveals that the circumstances are more complex. The results indicate that there is often no clear connection between employees' performance and the rewards they receive, according to Study I and II. Furthermore, the employees do not feel that they can affect the pay setting to any considerable degree, as was found in Study III. In addition, women were found to have a relatively negative view concerning both the level of pay-related gender equality and their possibilities of benefiting from an individualized pay system as a group – although they reported being more satisfied with the individualized pay system and the pay justice than men. This suggests that the individualized pay-setting system might be able to function more effectively than it does at present.

Based on the results of this thesis, several of the preconditions that may increase employees' overall satisfaction with an individualized pay system relate foremost to the work situation or to the pay-setting process. These findings suggest that if employees perceive that they have sufficient information about the applicable pay criteria and how they are to be fulfilled, and receive feedback on how the work appears to be progressing, and are also offered participation in a pay system where justifiable pay raises are connected to work performance, and where the pay-setting process does not favor one group over another – their overall satisfaction may increase. The findings of this thesis are also in line with theories that emphasize the importance of having equitably distributed rewards (Adams, 1965) and realistic expectations (Vroom, 1964) in order for employees to feel motivated.

Each organization and company that utilizes an individualized pay-setting system naturally has to set it up in a way that suits its own circumstances,

but a more general measure would be to increase the openness surrounding the pay-setting process in order to avoid speculation (Greenberg, 2004). Another way to try to bring about more positive pay perceptions would be to standardize the pay-setting process so that, for example, feedback occasions and performance reviews are, as much as possible, arranged along similar lines for all employees. Employers could also ensure that equal opportunity is given to all employees to fulfill the stipulated pay criteria as well as make efforts to increase the employees' influence over which pay criteria the organization or division uses (Alsterdal & Wallenberg, 2005; Kohn, 2001; Thibault & Walker, 1975). Since the satisfaction of employees has been found to increase when their supervisors have received training in how to follow fairer management principles (Skarlicki & Latham, 2005), the pay-setting process might benefit from supervisors gaining more insight into any potential prejudices they may have that could influence their assessments regarding pay setting.

A question that was put forth in the introduction of this thesis was whether it is realistic to expect individualized pay setting to serve as an incentive for employees and to improve their motivation and performance. Suggestions in support of this have been criticized in the literature since there is a lack of empirical studies that support the logic behind such expectations (Kohn, 2001; OECD, 2005; Pfeffer, 2001). This thesis cannot provide a definitive answer to this question either, but the results indicate that employees' subjective expectations about the pay-setting process and its outcomes – in combination with how they perceive their work situation – are related to how satisfied employees are with the pay system and how fair they consider it to be. Accordingly, it can be concluded that a pay-setting process that is perceived to operate properly, and that allows each employee an equal opportunity to meet the demands it presents, is likely to contribute to employees feeling greater satisfaction at work.



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