Example of literature review on equity theory

Business, Management

The Equity theory was first developed by John Stacey Adams. Equity theory attempts to draw a relation between the pay of an employee to his input and eventual output at workplace. On the surface, equity theory advances the notion that the higher one is paid, the more input he should put and hence the more of the organizational output ought to be credited to him. However, the complexity of reward management system in various organizations makes the assumption flawed in some instances. This paper discusses equity theory, examines its modern day applications and critically reviews its place in management of the current generation of employees.

Every employee needs to be remunerated for their work in one form or the other. The capitalist system has effectively given labor a monetary value. In that vein, any service that goes in the form of labor has to be remunerated in monetary form. Equity theory is premised on that concept. It relies on the fact that every employee would demand pay for his services to any organization. In addition, the theory suggests that employees are likely to expect higher pay for more input and the converse for less input. In that context, employees would be seeking to examine the reward system of the organization based on external and internal factors.

The rationale often is to determine the reward system’s fairness based on a comparison of the external and internal factors. On that premise, equity theory could apply a comparison of the pay rate based on four modules: job equity, company equity, occupational equity and cohort equity. Under job equity, employees compare the pay they earn against the pay earned by other employees within the same organization at vertical levels. This means an employee is keen to know the difference between his pay and that of his equals in the organization. Ordinarily, it is expected that employees in the same job description should be remunerated equally. However, complexities like different overtime worked, different allowances paid, among others could occasion a disparity. However, even with the disparities in pay, an equal pay system should only allow a slight difference. A huge gap suggests discrepancies within the workforce that could be both beneficial and detrimental to the organization.

Under company equity, employees compare their income to that of other employees within the organization but under a different position. While the positions could sit in the same vertical hierarchical structure, their differences in roles could justify different pay rates. For instance, the production manager and the human resource manager are both managers at the top level of the organization. However, their roles are very diverse. Their pay rates could be different depending on the importance attached to the activity assigned. An employee approaches his analysis with that background information. However, an employee would be keen to identify the disparity in pay and relate the issues causing the disparities. In occupational equity, employees compare their pay rates to the pay of similar employees in a different organization. This approach attempts to analyse the organizational contribution to its employees.

Lastly, the comparison could be cohort equity. In this comparison, employees compare their pay rates to the pay rates of their equals in terms of age, educational qualifications, skills, competencies, among other factors. This approach is predicated on the concept that peers ought to belong to a certain class with similar or almost similar circumstances.

According to equity theory, the comparison occasions a reaction among the workforce. The attitude and approach by an employee is affected by the results from the comparison. Often, the overriding objective in reward management is the need to ensure employees feel comfortable, contented and favoured by the system. In the long run, if the reward system is perceived by employees as unfavourable it would discourage the employee. Consequently, such employee is likely to pursue personal agendas. On the other hand, a reward system that is favourable to an employee would encourage and motivate his performance. The employee would pursue activities intended for the better performance of the organization. In other words, a favourable reward system aligns an employee’s personal interests to those of the organization thus resulting in goal congruence.

According to the equity theory, low reward causes dissatisfaction among employees forcing them to take actions to reduce the discrepancies. Some of the alternatives that employees would select are discussed below. Firstly, an employee may resort to quit the job. This would be the case where the disparities are almost to his disadvantage in all the cases. The employee would feel exploited and underprivileged. He most likely would quit in the pursuit of better opportunities. Secondly, the employee might undertake to reduce his performance at workplace. An employee often feels exploited but tied to the job due to personal consumption needs. Therefore, the employee cannot afford to quit. However, to show his displeasure, he reduces the amount of work input at workplace. This often works to remind the management of discontentment and a need to review the remuneration structure. Alternatively, an employee may resort to a demand for increased pay. Such an employee is often expectant of positive measures by the management. In the absence of the positive measures, the employee may as well assume the previously mentioned alternatives.

It is not the case that all comparison would result to negative results. In some cases, the employee may be in favourable situations. In such cases, the employee would likely be motivated into better and enhanced performance and contribution at the workplace. This employee would increase his performance, give more input and contribute progressively to the work.

It should be noted that reward system that is monetary as envisioned by the equity theory does not work in isolation. There are other motivations that would affect the contribution of employees. Some of the employees do not look at the monetary rewards in their employment. Often they could be concerned with issues like job security, retirement benefits, and non-monetary rewards such as housing, conducive working environments, locality of the workplace, holiday and sick leaves, among other motivation.

In conclusion, it is incumbent upon the manager to identify the needs of his employees and design a structure that accommodates monetary and non-monetary rewards in the workplace.

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