

23.10: Equity Theory

Learning Objectives

- Describe the role of inputs and outcomes in equity theory
- Explain the implications of equity theory for business managers



In contrast to the need-based theories we have covered so far, process-based theories view motivation as a rational process. Individuals analyze their environment, develop reactions and feelings, and respond in certain predictable ways.

Equity theory attempts to explain relational satisfaction in terms of perceived fairness: that is, people evaluate the extent to which there is a fair or unfair distribution of resources within their interpersonal relationships. Regarded as one of many theories of justice, equity theory was first developed in 1963 by **John Stacey Adams**. Adams, a workplace and behavioral psychologist, asserted that employees seek to maintain equity between what they put into a job and what they receive from it against the perceived inputs and outcomes of others.

Equity theory proposes that people value fair treatment, which motivates them to maintain a similar standard of fairness with their coworkers and the organization. Accordingly, equity structure in the workplace is based on the ratio of inputs to outcomes.

Inputs are the employee's contribution to the workplace. Inputs include time spent working and level of effort but can also include less tangible contributions such as loyalty, commitment, and enthusiasm.

Outputs are what the employee receives from the employer and can also be tangible or intangible. Tangible outcomes include salary and job security. Intangible outcomes might be recognition, praise, or a sense of achievement.

Practice Question

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Ross and Monica

Let's look at Ross and Monica, two employees who work for a large magazine-publishing company doing very similar jobs. If Ross received a raise in pay but saw that Monica was given a larger raise for the same amount of work, Ross would evaluate this change, perceive an inequality, and be distressed.

However, if Ross perceived that Monica were being given more responsibility and therefore relatively more work along with the salary increase, then he would see no loss in equality status and not object to the change.

An employee will feel that he is treated fairly if he perceives the ratio of his inputs to his outcomes to be equivalent to those around him. Equity theory includes the following primary propositions:

1. Individuals will try to maximize their outcomes.
2. Individuals can maximize collective rewards by evolving accepted systems for equitably apportioning resources among members. As a result, groups will evolve such systems of equity and will attempt to induce members to accept and adhere to these systems. In addition, groups will generally reward members who treat others equitably and punish members who treat others inequitably.

3. When individuals find themselves participating in inequitable relationships, they will become distressed. The more inequitable the relationship, the more distress they will feel. According to equity theory, the person who gets “too much” and the person who gets “too little” both feel distressed. The person who gets too much may feel guilt or shame. The person who gets too little may feel angry or humiliated.
4. Individuals who discover they are in inequitable relationships will attempt to eliminate their distress by restoring equity.

The focus of equity theory is on determining whether the distribution of resources is fair to both relational partners. Partners do not have to receive equal benefits (such as receiving the same amount of love, care, and financial security) or make equal contributions (such as investing the same amount of effort, time, and financial resources), as long as the ratio between these benefits and contributions is similar.

In other words, Ross perceives equity if Monica makes more money but also has more job responsibilities, because the ratio of inputs (job responsibilities) to outcomes (salary) is about the same. On the other hand, Ross would perceive inequity if the ratio were different—say if Monica made more money for the same job or if Monica made a salary equal to Ross’s but had fewer job responsibilities.

When an employee is comparing his input/outcome ratio to his fellow workers’, he will look for other employees with similar jobs or skill sets. For example, Ross would not compare his salary and responsibilities to those of the magazine company’s CEO. However, he might look outside the organization for comparison—for instance, he might visit [glassdoor.com](https://www.glassdoor.com) to check salaries for positions like his at other publishing houses.

Much like other prevalent theories of motivation, such as Maslow’s hierarchy of needs, equity theory acknowledges that subtle and variable factors affect people’s assessment and perception of their standing relative to others. According to Adams, underpayment inequity induces anger, while overpayment induces guilt. Compensation, whether hourly or salaried, is a central concern for employees and is therefore the cause of equity or inequity in most, but not all, cases.

In any position, employees want to feel that their contributions and work performance are being rewarded with fair pay. An employee who feels underpaid may experience feelings of hostility toward the organization and perhaps coworkers. This hostility may cause the employee to underperform and breed job dissatisfaction among others.

Subtle or intangible compensation also plays an important role in feelings about equity. Receiving recognition and being thanked for strong job performance can help employees feel valued and satisfied with their jobs, resulting in better outcomes for both the individual and the organization.

Equity theory has several implications for business managers, as follow:

- Employees measure the totals of their inputs and outcomes. This means a working parent may accept lower monetary compensation in return for more flexible working hours.
- Different employees ascribe different personal values to inputs and outcomes. Thus, two employees of equal experience and qualification performing the same work for the same pay may have quite different perceptions of the fairness of the deal.
- Employees are able to adjust for purchasing power and local market conditions. Thus a teacher from Vancouver, Washington, may accept lower compensation than his colleague in Seattle if his cost of living is different, while a teacher in a remote African village may accept a totally different pay structure.
- Although it may be acceptable for more senior staff to receive higher compensation, there are limits to the balance of the scales of equity, and employees can find excessive executive pay demotivating.
- Staff perceptions of inputs and outcomes of themselves and others may be incorrect, and perceptions need to be managed effectively.

? Practice Question

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