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Dow Scott

Loyola University Chicago, dscott@luc.edu

Tom McMullen

Korn Ferry

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Pay Fairness: Insights from Rewards Leaders



Dow Scott, Ph.D.
Loyola University Chicago



Tom McMullen,
Korn Ferry

Multiple factors have caused pay fairness to become a much more important and challenging issue for rewards leaders in recent years. First, there has been a flurry of both state and local government regulations aimed at closing the gender gap and other discrepancies in pay. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires publicly held companies to report their CEO-to-worker pay ratio, and the courts are reinforcing the right of employees to share pay information. Furthermore, attitudes toward pay transparency have changed as a result of social media, websites that share pay data and younger generations of employees who do not seem to place as much importance on pay privacy as did earlier generations. In addition, the increased diversity of the workforce has created varying views of how employees define fairness. Finally, tight labor markets require employers to be increasingly sensitive to employee preferences for more disclosure in order to attract, engage and retain talent.

Research indicates that rewards policies and programs perceived as unfair undermine employers' ability to attract and retain talent and motivate employee performance. Specifically, rewards fairness and the related constructs of pay justice and equity have been found to be strongly related to employee attitudes, including:

- Pay satisfaction (Cowherd and Levine 1992; Folger and Konovsky 1989; Lee, Law, and Bobko 1999; Miceli and Mulvey 2000; Shaw and Gupta 2001; Tekleab, Bartol, and Liu 2005)
- Commitment (Cohen and Gattiker 1994; Dulebohn and Martocchio 1998)
- Intention to quit (Miceli, Jung, Near, and Greenberger 1991)
- Perceived organizational support (Miceli et al. 2000).

Perceptions of rewards fairness also have been found to affect employee behavior in areas such as:

- Absenteeism and citizenship (Lee, 1995; Colquitt et al. 2001)
- Individual performance (Cohen-Charash and Spector 2001; Colquitt et al. 2001)
- Organizational outcomes, including employee turnover and customer satisfaction (Simons and Roberson 2003).

Although it is known that employee perceptions of rewards fairness are strongly related to employee attitudes, behaviors and performance, as Scott, McMullen and Royal (2011) pointed out, it is less clear what effect rewards practices have on these perceptions. In other words, do certain types of rewards programs or policies more closely align with perceptions of fairness than other programs or policies?

To motivate and engage employees with different backgrounds and experiences, employers must ensure that rewards programs are rooted in principles of fairness. This article addresses the “Study of Reward Fairness and Equity” conducted with WorldatWork that replicates and extends the original 2011 pay fairness study also conducted with the association. We examined which rewards policies and programs improve or erode employee perceptions of rewards fairness and the extent to which this has changed in the past eight years. We also specifically examined the effect that gender may have on perceptions of rewards fairness.

DATA COLLECTION AND SAMPLE CHARACTERISTICS

A sample of WorldatWork members, primarily mid- to senior-level rewards professionals in the United States, were invited to participate in the study. The survey required up to 15 minutes to complete and was open from March 1 through April 10, 2018. A total of 290 WorldatWork members from around the world participated in the research. For research purposes, the number of responses for a survey of this type and length is considered adequate.

The study replicated and extended a fair-pay study published in the *WorldatWork Journal* in 2011. The primary change in the survey instrument was an additional section examining how fair-pay perceptions might differ between male and female employees. The authors would have liked to survey employees directly about their perceptions of rewards policy and program fairness but, from a practical perspective,

few organizations provide such access. Moreover, because rewards professionals are the employers' stewards accountable for the strategy, design administration and evaluation of effectiveness of rewards programs and policies, they tend to have the best perspective within organizations regarding employee and management perceptions and concerns of rewards fairness and equity. Rewards professionals also provide the best perspective on how senior leaders view rewards programs and their effect on employee perceptions of fairness.

Figures 1 through 3 indicate that the organizations sampled in the study are diverse and represent industry in general. Figure 1 shows that respondents represented organizations ranging in size from fewer than 100 to more than 100,000 employees. More than 70% of respondents represented organizations with more than 1,000 employees.

Figure 2 indicates the range of industries represented. The largest industry represented was manufacturing (24%), and the second and third largest were financial, real estate and insurance (12%) and professional, scientific and technical services (11%).

Figure 3 shows that organizations in different sectors of the economy are represented, with private sector/publicly held and private sector/privately held having the largest percentage of respondents, 40% and 35%, respectively. Only 6% of respondents were employed in the government/public sector.

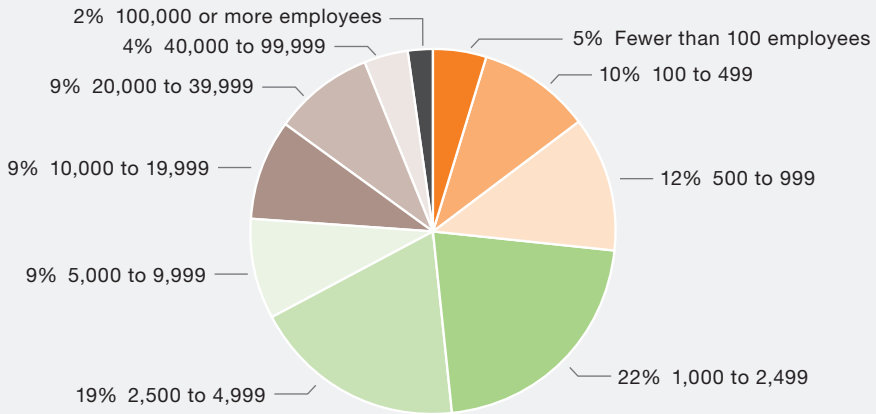
FINDINGS

Employee Concerns About Internal and External Fairness

Table 1 shows the extent to which rewards professionals report that employees express concerns about internal equity or fairness among major elements of their total rewards policies and programs. Promotion opportunities (78%), career development opportunities (73%) and base-pay amounts (67%) were most frequently identified as the rewards components with which employees express fairness concerns. This represents a change from the 2011 study, in which career development opportunities and base salary increases were identified as the areas of most concern among employees.

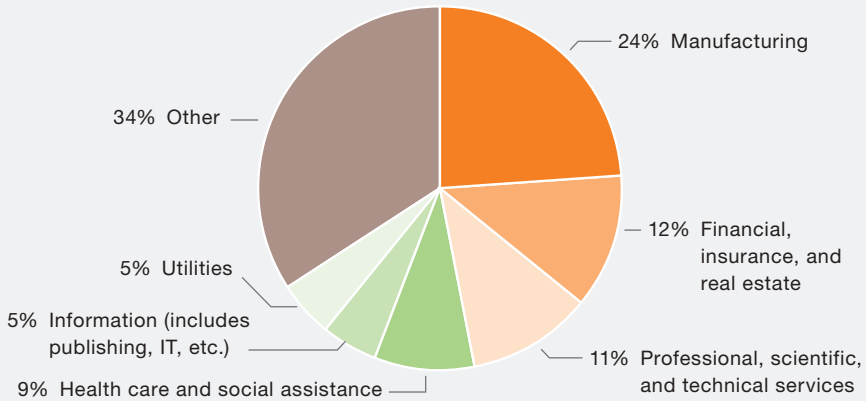
As in the previous research, employees express concerns across a mix of financial and nonfinancial rewards. Fairness in base pay (levels and increases) and career development are consistently seen as the top areas of concern. These findings likely are not surprising, given that base salaries tend to make up the greatest component of total rewards for most employees and the component most easily compared with others. Other factors affecting employee concerns about internal equity or fairness include the increasing degree of transparency and ability to benchmark base salary increases (from surveys and news accounts), base salaries (from crowd-sourced websites) and career development opportunities (from promotion announcements).

FIGURE 1 Study Participation: By Number of Full-Time Employees



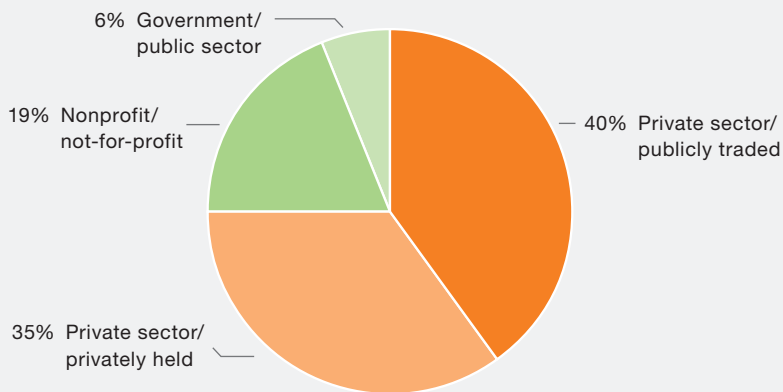
Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

FIGURE 2 Study Participation: By Industry



Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

FIGURE 3 Study Participation: By Sector



Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

TABLE 1 Employee Concerns About the Lack of Internal Equity Rewards

	2018 Mean (Standard Deviation)	2018 Frequency (%)	2011 Mean (Standard Deviation)	2011 Frequency (%)
Base pay amount	2.85 (.82)	67	2.87 (.84)	67
Base pay/merit increases	2.86 (.88)	64	3.02 (.85)	73
Job leveling or grading	2.57 (.90)	54	2.54 (.94)	52
Job titles	2.48 (.86)	44	2.54 (.92)	49
Variable pay (incentives bonuses)	2.50 (1.03)	48	2.58 (.96)	52
Overtime (opportunities)	2.01 (.80)	21	N/A	N/A
Opportunities for special assignments	2.23 (.77)	32	N/A	N/A
Flexible work arrangements	2.57 (.98)	48	2.47 (.94)	49
Recognition	2.62 (.94)	52	2.85 (.92)	66
Health-care benefits	2.24 (1.03)	36	2.34 (1.00)	40
Retirement benefits	1.95 (.87)	23	2.10 (.94)	32
Time off requests or approvals	2.22 (.89)	31	N/A	N/A
Employee development or training programs	2.58 (.92)	51	2.66 (1.00)	55
Career development opportunities	2.92 (.90)	73	3.05 (.96)	74
Promotion opportunities	3.06 (.83)	78	N/A	N/A

Note: Frequency percentages include "Constantly or Persistently," "Frequently" and "Occasionally" answers.

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

Respondents said employees express fewer concerns relative to fairness with overtime compensation, opportunities for special work assignments, flexible work arrangements, health-care benefits, retirement benefits and time-off requirements. These programs are probably likelier to be extended to employees organization-wide with more consistent and easier to understand eligibility and award criteria. As such, there likely is a perception that fairness is "built in" to these rewards given the lack of differentiation across employees within a group.

Perceptions of fairness of these rewards policies or programs have remained relatively constant since the previous study, except for salary increases, recognition and retirement benefits, for which concerns about fairness have decreased.

Table 2 shows the extent to which rewards professionals reported that employees express concerns about external fairness among rewards policies and programs. As is true for concerns about internal equity, rewards professionals indicated that employees have the most external fairness concerns about base-pay amounts (81%), promotion opportunities (65%), salary increases (61%) and career-development opportunities (60%).

Interestingly, external fairness concerns are much higher for base-pay amounts, likely because it is easier to gauge competitiveness for this rewards element than it is for others. Furthermore, concerns about base pay are more frequently expressed with regard to external pay fairness concerns (81%) rather than internal fairness concerns (67%), as shown in Table 2. Again, this finding likely is because of the

TABLE 2 Employee Concerns About the Lack of External Equity Rewards

	2018 Mean (Standard Deviation)	2018 Frequency (%)	2011 Mean (Standard Deviation)	2011 Frequency (%)
Base pay amount	3.17 (.83)	81	3.06 (.83)	78
Base pay/merit increases	2.81 (.95)	61	2.86 (.94)	66
Job leveling or grading	2.38 (.88)	44	2.20 (.89)	36
Job titles	2.39 (.81)	42	2.32 (.88)	38
Variable pay (incentives and/or bonuses)	2.60 (1.00)	52	2.55 (.99)	50
Flexible work arrangements	2.56 (.95)	47	2.32 (.96)	40
Recognition	2.41 (.93)	42	2.39 (.93)	43
Health-care benefits	2.47 (.96)	44	2.36 (.99)	41
Retirement benefits	2.20 (.90)	33	2.12 (.94)	32
Employee development or training programs	2.40 (.91)	43	2.43 (.99)	44
Career development opportunities	2.70 (.95)	60	3.05 (1.00)	59
Promotion opportunities	2.81 (.95)	65	N/A	N/A

Note: Frequency percentages include "Constantly or Persistently," "Frequently" and "Occasionally" answers.

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

employee's ability to easier benchmark his or her pay externally than internally given crowdsourced websites providing this information.

Although external fairness perceptions have changed little in the past eight years, perceived fairness of flexible working arrangements has become more important. This is most likely due to flexible work arrangements that have increased substantially both in terms of schedules and locations in the past several years. They have received considerable attention in the media as well. Furthermore, other research indicates that flexible work arrangements have become increasingly important and highly desired by managers and employees at all levels (Fractl 2016; Eriksen 2018).

Determinants of Rewards Fairness

Table 3 lists the criteria believed to most directly influence perceptions of rewards fairness. Respondents were asked to select the two criteria they thought were the most important in driving perceptions of rewards fairness for base pay, variable pay and nonfinancial rewards. While respondents were asked to identify two criteria for each reward type, some reported only one criterion; thus, the columns do not add to 100%.

For base pay, rewards professionals indicated that individual performance (76%) and work responsibilities associated with the job (67%) have the most impact on perceptions of fairness. Note that in the past eight years, the importance placed on individual performance has increased substantially, from 63% to 76%,

and now is considerably greater than the impact of work responsibilities. Also, note that all other factors dropped substantially from 2011 to 2018 and all are now less than 20%.

For variable pay, individual performance (57%) and overall organizational performance (58%) were the most important criteria influencing perceptions of rewards fairness. Overall, organizational performance was reported almost twice as frequently as a criterion than were team, department or business-unit performance.

Finally, the top driver of the perceived fairness of nonfinancial rewards was reported to be individual performance (53%), which has increased substantially since 2011 (38%). Individual potential also has increased as a criterion from 2011 to 2018 (20% to 43%). Seniority/tenure, time in job, and team, department or business-unit performance as fairness criteria for nonfinancial rewards have fallen, as shown in Table 3.

In terms of the importance of broader factors in determining how rewards are distributed, Table 4 indicates that consistency with the organization’s rewards philosophy (92%), employee pay in similar jobs (86%) and rewards promised to employees (85%) are most important in determining rewards in organizations compared to other factors. Although these ratings have increased somewhat, they are consistent with findings from the previous research. Consistency with how employees are paid in other organizations has much less influence (46%) than did other factors, as shown in Table 4.

TABLE 3 Most Important Criteria in Determining Rewards Fairness

	Base Pay 2018	Base Pay 2011	Variable Pay 2018	Variable Pay 2011	Nonfinancial rewards 2018	Nonfinancial rewards 2011
Seniority/tenure at organization	11	22	3	8	19	26
Time in job	18	24	2	6	10	17
Work responsi- bilities associated with the job	67	64	17	20	24	18
Individual poten- tial	11	16	5	13	43	20
Individual perfor- mance	76	63	57	55	53	38
Team/depart- ment/strategic business-unit performance	2	10	29	27	10	23
Overall orga- nizational performance	5	19	58	52	5	16

Note: Frequency percentages are reported. Because respondents had the option to choose multiple responses, the frequency percentages add to more than 100%.

Source: WorldatWork, Loyola University Chicago, and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

TABLE 4 Determinants of Rewards Fairness

	2018 Mean (Standard Deviation)	2018 Frequency (%)	2011 Mean (Standard Deviation)	2011 Frequency (%)
Consistency with what has been promised to the employee	3.32 (.78)	85	3.27 (.79)	84
Consistency with organizational rewards philosophy, goals or objectives	3.55 (.67)	92	3.39 (.74)	88
Consistency with how other employees in similar jobs are rewarded within the organization	3.27 (.75)	86	3.12 (.76)	82
Consistency with how other employees in similar jobs (same titles) are rewarded within the organization	1.93 (.78)	60	N/A	N/A
Consistency with how other employees in similar employee groups (but not similar jobs) are rewarded within the organization	2.69 (.81)	60	2.76 (.81)	65
Consistency with how employees are rewarded in other organizations	2.45 (.84)	46	2.38 (.81)	43

Source: WorldatWork, Loyola University Chicago, and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

Importance of Rewards Fairness Among Senior Management

Survey participants were asked to provide insight into how senior management perceived the importance of designing rewards systems that were perceived as fair. Because rewards professionals work closely with senior leaders to design and implement programs, the authors believe that these rewards professionals have credible insight into the perception of senior leaders on this topic.

According to the respondents, 25% of senior management is most likely to rate internal rewards fairness as a mission-critical objective — a substantial increase (more than 50%) from the 2011 study. Only 30% reported seeing pay fairness as a secondary objective, not an objective or not considered in rewards system design. Respondents said they see senior managers having similar views on the importance of external rewards fairness.

Rewards Fairness Perceptions of Male vs. Female Employees

Rewards professionals were asked to identify the areas in which male and female employees might have pay preference differences. Table 5 shows that respondents believed that male employees placed more importance on seniority/tenure at the organization and external pay comparisons than their female counterparts. Females were believed to place more importance on internal pay comparisons and work responsibilities with the job. Because male employees often have more tenure than females, who often take time off to raise children, this probably is

TABLE 5 Policies, Comparison and Performance Criteria with Strongest Influence on the Perceptions of Pay Fairness for Male and Female Employees

	Women %	Men %	No Difference %
Seniority/tenure at organization	10	32	58
External (outside the company) pay comparison	9	37	54
Internal (inside the company) pay comparison	39	8	53
Time in job	10	20	70
Work responsibilities associated with the job	25	9	66
Individual potential	21	19	60
Individual performance	20	14	66
Team/department/strategic business-unit performance	8	7	84
Overall organizational performance	2	8	89

Note: Frequency scores are reported in percentages. Due to rounding, some lines will not equal 100%.

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

not a surprise. What is more curious is that male and female employees differ in terms of external and internal pay comparisons.

Gender differences are explored in terms of which rewards programs and policies are most closely associated with pay fairness concerns. (See Table 6.) Female employees were believed to express more fairness concerns, according to respondents, with the amount of base pay, flexible work arrangements, health care and career opportunities. Male employees were more concerned about job titles, variable pay and retirement concerns. Overall, female employees were seen to have greater concerns about rewards fairness than male employees.

TABLE 6 Rewards Programs with the Strongest Influence on the Perceptions of Pay Fairness for Male and Female Employees

	Women %	Men %	No Difference %
Base pay amount	38	16	46
Base pay/merit increases	19	13	67
Job leveling or grading	14	10	75
Job titles	16	24	60
Variable pay (incentives and/or bonuses)	8	16	77
Flexible work arrangements	52	2	46
Recognition	17	8	75
Health-care benefits	18	3	79
Retirement benefits	1	9	90
Employee development or training programs	20	2	77
Career development opportunities	28	7	66
Promotion opportunities	23	17	60

Note: Frequency scores are reported in percentages. Due to rounding, some lines will not equal 100%.

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. "Study of Reward Fairness and Equity." Scottsdale, Ariz.: WorldatWork.

Suggestions to Improve Employee Perceptions of Rewards Fairness

Respondents were asked which rewards programs, policies and practices enhance perceptions of fairness. As shown in Table 7, several practices are seen to enhance rewards fairness, including market surveys/benchmarking (81%), rewards strategy and design (43%), rewards communications (41%), and a culture of openness and transparency (36%).

Table 8 shows policies and practices that respondents said they believe erode perceptions of rewards fairness. Communication is seen as a double-edged sword, in that it both enhances and erodes perceptions of pay fairness. In addition, inconsistent treatment/favoritism/exceptions (39%), poor economy/pay cuts/pay freezes (26%), and leadership (25%) erode perceptions of fairness.

Effect of Internal Rewards Equity on Employees

Finally, the survey asked rewards professionals what effect they believe internal rewards equity or fairness has on employee engagement, employee motivation, employee satisfaction and employee retention. More than half of respondents reported believing that it is “extremely influential or moderately influential” for engagement (53%), motivation (49%), pay satisfaction (57%) and retention (52%). Few rewards professionals said they think that engagement (11%), motivation (11%), pay satisfaction (10%) and employee retention (12%) are only “mildly influenced” or experience “no effect or neutral influence.”

Rewards Fairness and Organization Demographics

Organizational characteristics were examined to determine whether rewards programs and policies have different effects on employee perceptions of fairness and equity in different organizational contexts. In the 2011 study, the authors found two organizational characteristics that were associated with important differences in employee perceptions of fairness: size of the organization (number of employees) and type of the organization (public sector, private sector/publicly

TABLE 7 Factors that Enhance Rewards Fairness

	Percent
Market survey benchmarking external rewards fairness	81
Rewards strategy and design	43
Communication of internal rewards fairness	41
Culture of openness and transparency	36
Nonfinancial recognition internal	32
Communication external rewards fairness (benchmarking)	20
Nonfinancial recognition	11

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. “Study of Reward Fairness and Equity.” Scottsdale, Ariz.: WorldatWork.

TABLE 8 Factors that Erode Perceptions of Internal or External Rewards Fairness

	Percent
Communication	45
Inconsistent application/favoritism/exceptions	39
Poor economy/pay cuts/pay freezes	26
Leadership	25
Rewards strategy and design	19

Source: WorldatWork, Loyola University Chicago and Korn Ferry. 2018. “Study of Reward Fairness and Equity.” Scottsdale, Ariz.: WorldatWork.

traded, private sector/privately held, and nonprofit/not-for-profit). These differences, however, were not found in the 2018 study.

CONCLUSIONS AND RECOMMENDATIONS

This study reaffirms the importance of fairness in rewards programs and that rewards policies and programs may affect male and female employees differently. Furthermore, there have been relatively few changes in the past eight years as to how rewards leaders believe rewards policies and programs affect employee perceptions of fairness. From these findings, one can draw some conclusions as to how to create rewards policies and programs that influence perceptions of rewards fairness.

The findings indicate that rewards professionals believe that rewards policies and programs have different effects on employee perceptions of fairness. Specifically, employers need to pay particular attention to fairness issues when individual performance is the primary criterion for rewarding employees, as compared to rewards programs that are distributed to employees based on team or group results (e.g., variable pay) or membership (e.g., retirement and health-care benefits).

Next, rewards communications were found to be paramount for creating positive perceptions of rewards fairness and equity. One must recognize that even if employers are using job evaluation, pay surveys and other methods to help ensure fairness, employees may not be aware of this effort unless they are told. Moreover, poor communications concerning rewards issues will erode these perceptions. This includes communications content (i.e., the messaging) and communications processes (i.e., equipping managers, communications media). The communications challenge is further complicated by the emergence of pay transparency as an increasing employee expectation. This has been driven by the availability of pay information on social media, legislative requirements for pay openness and increased employee diversity.

We have also learned that challenging economic times have had a corrosive effect on employee perceptions of rewards fairness and equity. As such, leadership and the HR organization need to leverage rewards fairness strategy, design and execution to reinforce employee trust in rewards systems, particularly during downturns in the economy and within an organization.

This research indicates that male and female employees may develop perceptions of rewards fairness based on different criteria. Given the pervasive aggregate pay gap between male and female employees, perceptions as to what constitutes fairness with employees in general and between genders in particular should be further examined. Employee engagement surveys can confirm what rewards leaders believe in terms of rewards fairness perceptions. These surveys are an important step in addressing concerns of key demographic groups. Developing related action plans and rewards communications that address these concerns is an important second step in improving perceptions of rewards fairness.

It is too early to tell what impact the Trump administration will have on pay fairness. Initial indications are that there will be less invasiveness from the federal government on wage and hour issues than under the Obama administration. However, several states and local governments (particularly on both coasts) have been active in passing regulations to strengthen the notion of pay equity. This includes trends such as banning compensation history in the recruitment process, broadening the statute of limitations to litigate equal pay disputes, providing more punitive damages for equal pay violations and moving from equal pay for equal work to equal pay for comparable work. Given this as well as the societal changes toward more transparency in pay, we think employers need to continue enhancing their efforts to communicate why employees are paid what they are paid.

Employee perceptions of fairness and equity have a strong impact on employee engagement, commitment and tenure. To foster and maintain high levels of employee motivation, perceptions of fairness should be monitored, and actions taken as needed. ■

ABOUT THE AUTHORS

Dow Scott, Ph.D., (dscott@luc.edu) is a professor of human resources at Loyola University Chicago and president of Performance Development International LLC. He is a nationally recognized compensation and program evaluation expert, appearing in more than 100 publications. Scott's teaching, research and consulting have focused on the creation of effective teams, employee opinion surveys, performance improvement strategies, pay and incentive systems and the development of high-performance organizations.

Tom McMullen (tom_mcmullen@kornferry.com) is the Global Reward and Benefits thought leadership and intellectual capital leader for Korn Ferry and is based in Chicago. He has more than 30 years of combined HR practitioner and reward consulting experience. His work focuses primarily on total rewards, organization effectiveness and performance management program design. Prior to joining Korn Ferry, McMullen worked for Humana Inc. and Kentucky Fried Chicken Corp. in senior compensation analyst roles. He holds bachelors and masters of business administration degrees from the University of Louisville.

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