Equity Theory

Equity Theory explains the individual's perception of fairness in social exchange relationships, based on the perception of one's input into relations and the output of those relations compared against the ratio of the input and output of other people

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Theory Factsheet

Proposed By: Adams, 1963

Parent Theory: Social Exchange Theory, Cognitive Dissonance Theory, Social Comparison Theory, Relative deprivation Theory

Related Theories: Fairness Theory, Equity Sensitivity Theory

Discipline: Psychology

Unit of Analysis: Individual

Level: Micro-level

Type: Theory for Explaining and Predicting

Operationalised: Quantitatively

Introduction

Equity Theory was introduced by John Stacey Adams in 1963 (Adams, 1963), originally, for application in the organisational context. The theory was developed against the lack of theoretical explanation of the psychological basis of inequity perception (Adams, 1963). The inability to explain the perception of fairness was the primary concern for employers and governments, because it underlined the employees' behaviour and attitudes towards organisations (Adams, 1963). By 1963, Adams drew sufficient evidence from prior literature in sociology and psychology to propose that equity/inequity is not a matter of being overpaid, underpaid or fairly paid, neither is it the subject of an evaluation by purely economic measurements. The evaluation of equity is socially dependent, which entails complex psychological and cognitive processes. The development of the theory was needed to help understand how the fairness of exchange between an employer and employee is formed and propose ways to regulate the outcome of relations. The theory aimed to have organisational and social implications. On the one hand, the theory had commercial importance for organisations in terms of reducing financial consequences resulting from the negative behaviour of employees. On the other hand, the research had social importance, in terms of promoting social justice (Adams, 1963; Adams & Freedman, 1976).

Equity Theory was based on three theories of social science and psychology, namely, Social Exchange Theory, Social Comparison Theory and the Theory of Cognitive Dissonance (Huseman, Hatfield & Miles, 1987; Adams, 1963). Social Exchange Theory postulates that social relations are rooted in subjective evaluation of the costs and benefits of participating in relations (Blau, 1986; Homans, 1961). Social Comparison Theory explains the mechanism through which people evaluate the degree to which the distribution of costs and rewards is fair or unfair in social exchange relations. The rationale for using the social comparison principle in Equity Theory stemmed from prior evidence. It was found that the evaluation of perceived fairness by employees of different groups in one division in an organisation made it possible to conclude that the rewards were not considered to be fair if input was higher compared to that of other colleagues (Adams, 1963). The literature on social comparison distinguishes two popular comparison approaches, which are downward comparison and upward comparison. Downward comparison means that people look at more disadvantaged members of the group to evaluate their own input and output. Thus they may perceive the distribution of rewards to be fair to themselves. Upward comparison means that people look at other more advantaged members of the group with the aim of evaluating their rewards (Wills, 1981). Cognitive Dissonance Theory explains the behaviour of people when they experience stress induced by contradictory cognitions and the motivation of people to reduce stress by passive or proactive measures (Festinger, 1962). The utilisation of Cognitive Dissonance Theory contributed to the understanding of the emotional and behavioural consequences of relations evaluating costs and benefits. These three theories formed the theoretical underpinning of Equity Theory, making it possible to explain the nature of relations between people, the mechanisms underpinning the cognitive evaluation of the outcomes of relations, and people's reaction to such outcomes of relations.

There were two primary objectives of the Equity Theory. First, the theory aimed to explain how people evaluate the degree to which interpersonal relations are fair. The second objective of the theory was to explain the effect of inequitable relations. To realise the objectives, the determinants/main elements that people consider when they evaluate equity were conceptualised (Adams, 1963; Adams & Freedman, 1976). The conceptualised elements were output, input, person and others. Input and output derived from the Social Exchange Theory to refer to costs/contributions that people make and the benefits/rewards of those relations. Input may denote different objects and forms, such as education, experience, skills, social status and effort among other attributes of the person, such as personal characteristics, the level of attractiveness etc. Those variables determine what people bring into relations. Hence, they were defined as inputs. Those inputs are perceived by the contributors and should be measured against their relevance to the particular social exchange situation and should be recognisable by the parties of exchange. Outputs referred to financial rewards, intrinsic outcomes of behaviour, social and symbolic benefits and status among a few. Similar to inputs, outputs were characterised in terms of recognition and relevance. Person and others derived from the Social Comparison Theory. Person is an individual evaluating to what degree the relations are fair, while others can be any referent people against whom equity is compared. It can be even the person himself/herself, but at another point in time/situation/circumstances. Having identified the variables involved in the evaluation of inequity, inequity was conceptualised as a misbalance between the personal input/output of relations and the observed input/output of relations of other people (Adams, 1963). Drawing on supporting evidence and the theoretical framework of cognitive dissonance (e.g. Wills, 1981; Festinger, 1962)) the effects of inequitable relations and the ways to cope with them were proposed (Walster, Berscheid & Walster, 1973; Adams, 1963; Adams & Freedman, 1976). The proposed theoretical framework of equity in the social exchange context aimed to contribute to the literature on social psychology. It meant to be a comprehensive framework, which would incorporate and explain a number of mini-theories in social psychology, such as Learning Theory, Cognitive Consistency Theory, and Freudian Theory, which had been vaguely explained before. Although rigorous research had been carried out to support the assumptions of those theories, it had not been clear as to how those theories related

to each other. Equity Theory embraced the prior knowledge under one umbrella to explain individuals' motivation to perform a particular behaviour and individuals' responses to relations. Beside the explanatory robustness, the goal of the theory was to be able to predict how individuals may behave by assessing the relative outcomes of relations (Walster, Berscheid & Walster, 1973).

Theory

There are five main principles postulated by the theory. First, the relations of people are built on an equity norm (i.e. the expectation that their contributions will be rewarded) (Adams, 1963). Individuals are profit-driven per se and expect the outcome to be equal rewards minus costs. In the group context, equitable relations between members of the group are expected to benefit other members. Hence, members of the group will reward fellow members, who treat others equitably and punish those who treat others inequitably (Walster, Berscheid & Walster, 1973). People in different societies strive for equitable relations. Although the original works on equity did not explore individual differences in the evaluation of equity, it was pointed out that the perception of what equitable relations are varies for different people (Walster, Berscheid & Walster, 1973; Lund, Scheer & Kozlenkova, 2013).

Second, the evaluation of equity results from the assessment of personal inputs/outputs against inputs/outputs of other people in the social exchange relations (Figure 1). Equity is perceived when the ratio of input/output is equal to the input/output of other people. Individuals either refer to a specified referent person or a generalised other to draw the comparison. The specified person can even be oneself, which means that the person refers to their own experience in the past in terms of the rewards received for their contributions. Generalised comparison assumes comparing one's input/output ratio against the commonly accepted standards or predefined social norms (Greenberg, 1987). In addition, specified or generalised others can be external (from different social groups) or internal (people within the same social group) (Scholl, Cooper & McKenna, 1987). The example of generalised internal standards is when employees use referent bonus targets set by the company to evaluate the fairness of bonus payments (Voußem, Kramer & Schäffer, 2016). Specified internal standards are salient for organisational leaders, who base their judgement about reward distribution on personal equity norms (Rus, van Knippenberg & Wisse, 2010). Specified external standards can play a role when an employee in one organisation compares his/her payment to the payment of a specific individual working for another organisation (Shore, Tashchian & Jourdan, 2006).

Third, unequal distribution of rewards against contributions leads to inequity perception. For example, in the organisational context, inequity happens whenever employees' inputs (education, qualification, responsibilities) and outputs (bonuses, salary and job security) are psychologically obverse to what an employee thinks that other people receive (Festinger, 1962; Voußem, Kramer & Schäffer, 2016; Kim, Edwards & Shapiro, 2015). In the family context, inequity results from under-benefiting or over-benefiting a party in relations (Sprecher, 2018). When it comes to shopping behaviour, inequity happens when consumers receive benefits and services that have not been anticipated (Oliver, Shor & Tidd, 2004).

Fourth, inequity results in the psychological discomfort due to the inconsistency between personal outcomes and the referent others (Table 1). Negative inequity (the perception that an individual received fewer rewards compared to contributions) and positive inequity (which is the perception that rewards are greater than the contributions) triggers distress associated mostly with the feeling of anger and guilt. The greater the inequity, the stronger is the distress that people feel (Walster, Berscheid & Walster, 1973; Adams, 1963). In family relations, the misbalance in the benefits and treatment between the parties causes psychological stress and dissatisfaction with relations (Sprecher, 2018).

Fifth, if any of the forms of inequity are perceived, the person aims to restore inequity either psychologically or physically in pursuit of eliminating the emotional tensions associated with inequity perception. Psychological and physical mechanisms to cope with distress are directed at either redistributing personal or others' input/output to eliminate discrepancy, cognitively change the perception or attitude to the input/output (Scholl, Cooper & McKenna, 1987; Walster, Berscheid & Walster, 1973; Adams, 1963). The theory distinguishes seven specific forms of coping mechanism: 1) compensation for inequity, 2) self-deprivation, 3) devaluation of the input of the other party of relations, 4) self-affirmation, 5) denial of responsibility for the act, 6) justification of inequity, and 7) retaliation against the party of relations causing inequity. Although the theory has not examined the effect of personality factors, it assumes that the response to inequity may differ depending on personality factors (Walster, Berscheid & Walster, 1973). Compensation is manifested as an increase of rewards to another party. It is a common practice in organisational management, when underpaid employees get motivated through compensation schemes to improve inter-organisation relations and performance (Shin, 2016). Self-deprivation refers to the decrease of personal rewards to equate with the reward of another party. In response to the performance of a negative behaviour towards another party, an individual can seek punishment from other people (Walster, Berscheid & Walster, 1973). The devaluation of the input of the other party and self-affirmation that rewards are inequitable are the two psychological techniques that are used to rationalise the unfavourable outcome of relations (Walster, Berscheid & Walster, 1973;Davies et al., 2018). These equity restoration responses have been examined to explain the perception of gender-based inequality and social biases in relation to disadvantaged social groups as a way to justify the disparity of benefits in society (Davies et al., 2018; Davies et al., 2018). The denial of responsibility for the act is a way to neutralise the feeling of moral obligation (Walster, Berscheid & Walster, 1973). It is a popular response to unethical behaviour, which could be the non-compliance to company policies (Harrington, 1996), in-group violence (Iqbal & Bilali, 2018) or bullying behaviour (Zhang & Leidner, 2018). When it comes to retaliation strategy, in abusive behaviour, it is a victim's response to inequitable relations through either physical (e.g. request for compensation) or psychological means (justification) (Walster, Berscheid & Walster, 1973).

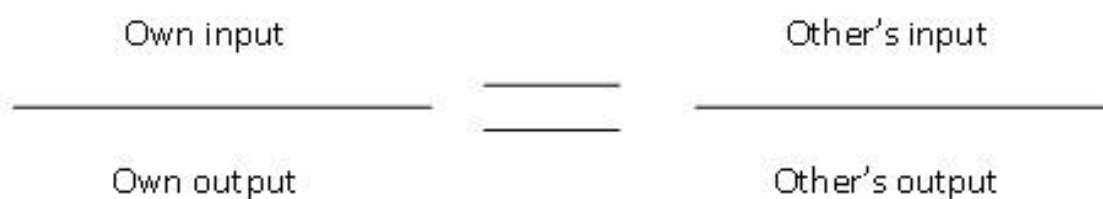***Figure 1: Input/output ratio in equity perception***

Table 1: Equity evaluation compared to referent others

	Individual		**Referent Others**
Equity	Output/Input	=	Output/Input

Negative inequity	Output/Input		Output/Input

Applications

Equity Theory has become widely used across disciplines and has been tested in different geographical contexts. The major body of knowledge has been generated in the domain of organisational psychology. For example, the principles of Equity Theory were used to examine the effect of fairness perception on employees' negative and positive behaviour (Janssen, 2001; Moorman, 1991; Greenberg, 1990). The framework was applied to explain the relationship between the employees' perception of fair procedures and rewards distribution on organisational citizenship behaviour. It was found that positive behaviour of employees can be secured by subjecting employees to fair procedures irrespective of the equitable distribution of rewards compared to other employees in the organisation (Moorman, 1991). Also, Equity Theory was used to explore the moderation effect of fairness perception on the relationship between job demands, job performance and job satisfaction. It was confirmed that in the condition of fair effort-reward allocation, people tend to perform better and feel more satisfied (Janssen, 2001). When employees are paid for performance, though, the evaluation of reward can be detrimental to employees' positive performance. Performance-related pay schemes pose a threat to organisations, as there is no clear relationship between earnings and job grade, which makes the workers' perception of rewards distribution highly subjective (Rubery, 1995; Ederer & Manso, 2013). In addition, the theory was applied to explain employees' negative behaviour, such as theft, as the response to redistributing rewards (i.e. compensation for pay cuts) and the mechanism used to lessen the perception of inequity. The results supported the predictions of Equity Theory in terms of likely responses to underpayment and the coping role of negative behaviour in situations of perceived inequity (Greenberg, 1990).

Equity Theory has also underpinned research in economic psychology. There was a study proposing a fair wage-effort hypothesis and discussing implications for the labour market. It was suggested that when the actual wage falls short of employees' fair wage, employees tend to engage in withdrawal behaviour. The hypothesis was consistent with observed wage differentials and unemployment patterns, which confirmed the power of the theory in explaining economic indexes (Akerlof & Yellen, 1990). In another example, a study used the theory in order to investigate the firm-level consequences entailed by CEO underpayment in an emerging economy. It was found that underpayment reduced firm value in poorly-governed firms, while overpayment had no effect on firm value (Gyapong, Khaghaany & Ahmed, 2020). Also, the principles of Equity Theory were applied to predict socio-economic events (Kim, Evans & Moser, 2005; Ocampo & Vallejo, 2012). For example, scholars found a correlation between perceived inequity in a tax payment system (i.e. high tax rates) and taxpayers' decisions to report a lower amount of income (Kim, Evans & Moser, 2005). In addition, the insight into the economic dynamics of developing countries demonstrated that despite the increase in public-sector social spending, the unequal distribution of socio-economic benefits among the society significantly impedes countries' economic development (Ocampo & Vallejo, 2012).

The application of the theory was also found in research on intimate relations (Canary & Stafford, 1992; Sechrist et al., 2014). The balanced exchange of support between family members was confirmed to determine the quality of relations (Sechrist et al., 2014). Equity Theory was adopted to investigate the role of perceived relationship power in dating relations. The principles of equity theory were partially confirmed. Particularly, in line with the theory, the equal distribution of power correlated with a stronger feeling of happiness. However, in contrast to the theory, respondents

with more power in relations than their partner (positive inequity) generally were more satisfied with the relationship and had a greater trust in their current partner (Hall & Knox, 2019). Similar findings derived from another study testing the effect of positive and negative inequity in relations. It was concluded that under-benefiting inequity led to distress and dissatisfaction, whereas such an outcome was not observed in cases of equity or over-benefiting inequity (Sprecher, 2018). Researchers also explored responses to inequity in relations, which take the form of the denial of responsibility for causing harm, victim-blaming and self-affirmation (Scott & Straus, 2007;Burn & Brown, 2006;Iqbal & Bilali, 2018). The responses to aggressive behaviour were different across respondents, calling for more in-depth insights into the gender and psychological/cognitive differences among people underpinning equity restoration strategies (Scott & Straus, 2007).

Equity Theory has also been used when it came to studying users' interaction with information systems. For example, the equitable needs fulfilment suggested by the theory, successfully predicted information systems implementation (Au, Ngai & Cheng, 2008). The perception of online justice indirectly affects value co-creation behaviour, mediated by the sense of a virtual community (Chou, Lin & Huang, 2016). Price fairness increases the perceived quality of a product/service and deal value, motivating consumer behaviour (Darke & Chung, 2005; Darke & Dahl, 2003). Also, scholars applied Equity Theory to explaining the responses to inequity in relations mediated by technology (Harrington, 1996;Oliver, Shor & Tidd, 2004). Specifically, there is evidence that procedural and distributive justice in web purchasing induces a positive emotional state and leads to future purchase intention (Oliver, Shor & Tidd, 2004). Another body of research explored psychological responses to the unethical use of Information systems, manifested as the denial of responsibility for the misuse of technology (Harrington, 1996) or the consequences of the unethical use of technology (Cooper & Blumenfeld, 2012; Allison & Bussey, 2017).

Equity Theory has been tested in different geographical contexts, producing inconsistent results. For example, a comparison of the reactions of automotive dealers to positive inequity in the Netherlands and the US demonstrated that Dutch dealers perceived both negative and positive inequity unfavourably, while US dealers negatively reacted only to negative inequity (Scheer, Kumar & Steenkamp, 2003). Another piece of research demonstrated that the importance of fairness perception differed depending on culture (Lund, Scheer & Kozlenkova, 2013). The research shed light on the role of individualist and collectivist cultures in customers' reactions to cross-cultural price comparisons (Bolton, Keh & Alba, 2010). However, the countries with a collectivist culture can also vary by the degree of distributive fairness perception, as suggested by a study exploring comparison strategies and the evaluation of rewards/inputs by employees in China, Japan and South Korea (Kim, Edwards & Shapiro, 2015). Japanese workers perceive overpayment to be unfair, in contrast to Chinese and South Korean employees, which can be explained by the stronger materialism ideology embedded in the social system of the latter two countries (Kim, Edwards & Shapiro, 2015). Mixed findings of fairness perception make it possible to conclude that it is not a universal concept, as it is largely moderated by cultural and ideological differences (Lund, Scheer & Kozlenkova, 2013; Bolton, Keh & Alba, 2010; Kim, Edwards & Shapiro, 2015).

Limitations

Equity Theory has been criticised for oversimplifying the normative foundation of individuals' behaviour in the social exchange context. It has been argued that social relations cannot be reduced to a simple evaluation of inputs and outputs, due to the difference in the nature of relations, the resources being exchanged, the context and personality factors (Romer, 1977; Romer, 1979; Huseman, Hatfield & Miles, 1987; Cropanzano & Folger, 1989; Leventhal, 1980).

The major critique arose due to Equity Theory not being able to explain all instances of social relations. Equity theorists have been criticised for claiming the applicability of the theory to a

broader domain, without, though, providing justification for such assumptions. Specifically, it has been argued that Equity Theory mostly refers to situations with a more economic nature and a context denoting competitive relations (Romer, 1977). Such a conclusion comes from the first assumption of the theory, which postulates that people in social exchange relations strive to maximise personal benefits, disregarding the cooperative relations people may engage in (Walster, Berscheid & Walster, 1973; Adams, 1963). To provide insight into the role of social factors in cost-benefit evaluation, a recent study was conducted, which found a strong positive impact of social group identity on equity evaluation (Davlembayeva, Papagiannidis & Alamanos, 2021). In addition, it was suggested that the application of Equity Theory is bounded to limited resource situations, whereby the rewards are subjected to the division between members of relations. Such situations do not take into consideration psychological unlimited rewards, which cannot be measured and divided (Romer, 1979).

The second limitation of the theory is that it does not take into account personal and cultural differences, which may affect the perception of equity (Walster, Berscheid & Walster, 1976). It was found that the behavioural approach to restoring inequity (Feldman, 1968) and equity perception (Weick, Bougon & Maruyama, 1976) varies across cultures, and the personal profit-maximization norm may not hold true universally for all people (Huseman, Hatfield & Miles, 1987). To address the limitation in prior research, Huseman et al. developed an equity sensitivity construct, which explains the difference in the perception of equity depending on the personal norm (Huseman, Hatfield & Miles, 1987). By measuring individuals' equity sensitivity, it is possible to differentiate three types of people: equity benevolents, equity sensitive people and entitleds (Huseman, Hatfield & Miles, 1987; King & Miles, 1994). Equity benevolents tend to accept a negative distribution of rewards in relation to themselves. For them, the likelihood of getting a satisfactory outcome of relations is high, as the input of resources that they invest in exchange relations can exceed the output (Huseman, Hatfield & Miles, 1987). In contrast to benevolents, entitleds are intolerant of unfair rewards allocation and prefer to receive more than they contribute to relations (King & Miles, 1994). For equity sensitive people, the evaluation of fairness depends on the proportional ratio of output against the inputs contributed to relations. The equity sensitivity variable has been widely applied in research to explain the deviation of the perception of rewards and inputs in relations, based on individuals' psychometric characteristics (Bourdage et al., 2018; Davlembayeva, Papagiannidis & Alamanos, 2021). Another approach to exploring individuals' differences in equity/inequity perception was provided by Norman Anderson (1979), who developed a model of cognitive algebra to explain how people integrate information to form their judgement. The model can be a useful tool in analysing individuals' cognitive differences underpinning equity evaluation (Farkas & Anderson, 1979).

Another limitation concerns the principles of the theory related to responses to inequity. It has been argued that the response to under-reward may be different to what is predicted by the theory, if the person chose to be under-rewarded (e.g. turning down a lucrative job in a pursuit of another career with a lower salary). In such situations, people may be more intrinsically motivated to improve the performance of the task, rather than decrease the input (Cropanzano & Folger, 1989). Employees can withhold from responding to inequity to maintain relationships or obtain gains from other aspects of relationships.

Finally, Equity Theory has been criticised for its unidimensional measurement, whereby rewards implied different resources, disregarding the processes that people may evaluate. As a response to this limitation, further research categorised fairness into several dimensions, such as the most widely used procedural and distributive justice (Leventhal, 1980). Perceived distributive justice refers to the perception that the amount of reward for the input in exchange is fair. Perceived procedural justice refers to the degree to which an individual perceives the means of rewards distribution to be fair (Folger & Konovsky, 1989). Researchers have provided evidence confirming that both procedural and distributive justice lead people to believe that the outcome of relations is

favourable for them (Rubenstein, Allen & Bosco, 2019; Chan & Lai, 2017). These beliefs trigger positive emotions and behaviour (Ming Chiu & Walker, 2007; Chan & Lai, 2017), while the perception of injustice contributes to emotional exhaustion (Piccoli & De Witte, 2015).

Concepts

Equity Sensitivity (Independent): Individuals react in consistent but individually different ways to both perceived equity and inequity because they have different preferences for (i.e., are differentially sensitive to) equity. (Huseman, Hatfield & Miles, 1987)

Equity (compared To Oneself) (Independent/Dependent): The change in equity status of self. (Joshi, 1991)

Equity (compared To A Referent Person) (Independent/Dependent): The fair sharing of profits (benefits) between self and the employer. (Joshi, 1991)

Equity (compared To Generalised Others) (Independent/Dependent): The asymmetry in the impact on equity when compared with other users in the reference group. (Joshi, 1991)

Input (Independent): The participant's contributions to the exchange, which are seen (by a scrutineer) as entitling him to rewards or costs. (Walster, Berscheid & Walster, 1973)

Output (Independent): The positive and negative consequences that a scrutineer perceives a participant has incurred as a consequence of his relationship with another. (Walster, Berscheid & Walster, 1973)

Other (Independent): Any individual or group used by Person as a referent when he makes social comparisons of his inputs and outcomes. (Adams, 1963)

Person (Independent): Any individual for whom equity or inequity exists. (Adams, 1963)

Reference Person (Independent): The reference person or group used in evaluating the equity of one's own exchange relationship. This reference source may be a co-worker, relative, neighbour, group of co-workers, craft group, industry pattern, profession, and so on. (Adams & Freedman, 1976)

Psychological Restoration of Inequity (Dependent): A person may psychologically distort his inputs and outcomes, increasing or decreasing them as required. (Walster, Berscheid & Walster, 1973)

Physical Restoration of Inequity (Dependent): The redistribution of personal or others' input/output (Walster, Berscheid & Walster, 1973)

Self-deprivation (Dependent): The harm-doer could voluntarily reduce his own relative outcomes to the victim's level; one could curtail his own outcomes from the relationship or increase his inputs (Walster, Berscheid & Walster, 1973)

Derogation of A Victim (Dependent): A person who has harmed another can persuade himself that his act was equitable is by devaluating the victim's inputs (Walster, Berscheid & Walster, 1973)

Self-affirmation (Dependent): Convincing oneself that relationships are equitable (Walster, Berscheid & Walster, 1973)

Denial of Responsibility (Dependent): The harm-doer can perceive that it was not his behaviour but rather the action of someone else (e.g., the experimenter or fate) that caused the victim's suffering (Walster, Berscheid & Walster, 1973)

Retaliation (Dependent): A victim's response to inequitable relations through either physical (e.g. request of compensation) or psychological means (justification) (Walster, Berscheid & Walster, 1973)

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