

JOURNAL OF SMALL BUSINESS
STRATEGY

**FELT FAIR PAY OF SMALL TO MEDIUM-SIZED ENTERPRISE
OWNERS IN FINLAND AND LATVIA: AN EXAMINATION
OF JAQUES' EQUITY CONSTRUCT***

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ABSTRACT

This study tests a portion of Jaques' theory of equitable payment, using two samples of small to medium-sized business owners in Finland and Latvia. Results support Jaques' proposition about who would be satisfied with their pay level and who would be dissatisfied.

INTRODUCTION

Compensation has long been a topic of interest to employees and employers alike. In fact, the use of compensation as a motivator has been traced to antiquity (Peach & Wren, 1992). The concept of an employment relationship implies that employees work in exchange for some reward, and this reward is often monetary compensation (Brockner, 2002). Thus, pay satisfaction has emerged as a popular variable for use in organizational research (for reviews, see Carraher, Buckley, & Carraher, 2002; Heneman, 1985; Heneman & Schwab, 1979; Lawler, 1971, 1981; Miceli & Lane, 1991; Rynes & Gerhart, 2003). Pay satisfaction exhibits significant relationships with organizationally important outcomes such as absenteeism (Weiner, 1980), turnover intentions (Griffeth

Gaertner, 2001), perceived organizational attractiveness for job seekers (Heneman & Berkley, 1999), organizational citizenship behaviors (Lambert, 2000), and job perform-

ance (Mulvey, LeBlanc, Heneman, & McInerney, 2002; Werner & Mero, 1999).

As noted by Rice, Phillips, and McFarlin (1990), one of the most intriguing findings with respect to pay satisfaction is the modest strength of the relationship between how much an individual is actually paid and that individual's pay satisfaction. Although this relationship typically has been positive and statistically significant, it has generally explained well under 25 percent of the variance in pay satisfaction. These findings have led others to examine the prediction of pay satisfaction based upon multiple discrepancies or multiple monetary standards of comparison for the individual employee (Law & Wong, 1998), along with demographic and psychological variables (Berkowitz, Fraser, Treasure, & Cochran, 1987; Carraher & Buckley, 1995).

Scholars have noted that comparatively little research advances models of pay and their predictors (Cox, 2000; Heneman, 1985; Miceli & Lane, 1991; Rynes & Gerhart,

* This paper won the SBI Best Paper Award at the 2005 USASBE/SBI conference in Palm Springs, California.

2003; Shaw & Gupta, 2001; Williams & Brower, 1996). This could be due to the assertions of some researchers that it is clearly "too early to offer a precise theoretical model of the determinants of income satisfaction" (Berkowitz et al., 1987, p. 546), yet such model development is still needed (Shaw & Gupta, 2001). Heneman's (1985) review of the pay-satisfaction literature discussed two major models of pay satisfaction: the equity model of Adams (1965) and the discrepancy model of Lawler (1971). A third model, the theory of equitable payment, developed by Jaques (1961, 1964) in the United Kingdom, has generally been overlooked by theorists due to difficulties in measuring some of its concepts (Belcher, 1974; Hellriegel & French, 1969) but is making a comeback (Allison & Morfitt, 1996; Brookes, 1994; Carraher, Carraher, & Whitely, 2003; Lip-Bluman & Leavitt, 1999), and it may be useful in the examination of the antecedents of satisfaction with pay. Both Adams (1965) and Lawler (1971) also cited Jaques' work in their own.

Jaques' theory of equitable payment (1961, 1964) postulates that individuals have an intuitive knowledge of: (1) their capacity for work, (2) the level of their work in terms of responsibility and performance, and (3) the appropriateness of their pay. Further, with respect to individual capacity to work, Jaques has hypothesized that capacities for work develop in regular and predictable patterns over time; that it is necessary that one work in a role equivalent to one's capacity for work in order for him or her to experience psychological equilibrium in their job and with their pay; and that employees seek jobs that will match their level of work with their current capacity for work. He also postulates that one's level of work can be measured by determining an individual's time-span of discretion with respect to decision making on the job, and that an individual's perception of being fairly paid for a certain level of work can be successfully measured either directly or by examining their time-span of discretion and current capacity for work (Jaques, 1964). Unfortunately, although Jaques (1961, 1962; 1964; 1968; 1970), Richardson (1971), and

Allison and Morfitt (1996) have reported success at measuring both time-span of discretion and felt fair pay, others have not found these concepts easy to measure (Hellriegel & French, 1969) and, therefore, the application of Jaques' work has been limited (Belcher, 1974). Most of the work on, and problems encountered with, Jaques' theory have focused on the time-span of discretion construct (for examples, see Brookes, 1994; Bushe & Havlovic, 1996; Gordon, 1969; Milkovich & Campbell, 1972; Nystrom, 1973; Wintermans, 1994) while in the current study felt fair pay is assessed directly.

When addressing issues of equity, particularly felt fair pay, Jaques (1961) believed that unrecognized norms of fair pay existed for any given level of work, and therefore, he postulated that if actual salary were not less than 90 percent or greater than 120 percent of deserved salary (as perceived by the individual), then equity would be experienced. As with Adams equity theory, Jaques believed that the greater the discrepancy between felt fair pay and actual pay, the stronger would be the psychological disequilibrium. Richardson (1971) reported high correlations between time-span of discretion and felt fair pay ($r = .86$, $n = 180$).

The present study addresses the question: (1) Does Jaques' equity construct accurately predict who will be satisfied and who will be dissatisfied with their pay levels among business owners in Finland and Latvia?

METHOD

Measures

Pay Satisfaction. The measure of pay satisfaction used was the "pay level" subscale of the Pay Satisfaction Questionnaire that contains four items (Heneman & Schwab, 1985). These items are rated on a 5-point Likert-like scale with scale anchor points from 1 (very dissatisfied) to 5 (very satisfied). Ash, Dreher, and Bretz (1987) report a one-month test-retest reliability estimate of .73 for this scale. The coefficient alphas for these two samples indicate high levels of internal consistency with alphas

equal to .978 for sample 1 and .982 for sample 2.

Equity. The measure of Jaques' equity construct of felt fair pay comes from Jaques (1961) - although it has been adapted for assessment by survey questionnaire rather than assessment through face-to-face interview as has generally been done by Jaques and his associates. The actual measure is the fraction of (actual salary - deserved salary) / deserved salary. Jaques did agree that this is a good measure of his felt fair pay construct (personal communications, Sept. 1996; August 2002). Dividing the discrepancy by deserved salary serves to standardize the measure, which was suggested by Jaques (1961) and Katzell (1964) and was based on Weber's Law. It is important that the information for Jaques' felt fair pay construct be collected within a social-analytic relationship (Amado, 1995; Jaques, 1962; 1961). In other words, information should be kept confidential, no executive action should be taken as a result of the data collection, and the participants should not be pressured to participate in the assessments. The violation of any of these requirements can result in respondents not providing accurate information (Jaques, 1962).

Demographics. Three demographic or work-related variables suggested by Rice et al. (1990) were measured. These included the following: gender, age, and current annual salary.

Samples

This article reports on data from two samples. The first sample consisted of 182 owners of small to medium-sized businesses in Finland; 119 (65.4%) were males. On average, they were 41.2 years of age and received an annual salary of \$88,802 from their organization. The second sample consisted of 210 owners of small to medium-sized businesses in Latvia; 138 (65.7%) were males. On average, they were 34.07 years of age and received an average annual salary of \$77,410 from their organization.

RESULTS

Table 1 presents the means, standard deviations, and intercorrelations of the variables for the samples. Three points deserve mention. First, the subjects generally earned slightly less than they believed that they should. On average, the small to medium-sized business owners earned 12 percent less than they believed that they should in Finland and 15 percent in Latvia. Second, the mean values on pay satisfaction (PSQ) indicate that, on average, the owners were satisfied with their pay in both countries. Third, among the set of independent variables, the felt-fair-pay measure advanced by Jaques exhibits the largest correlations with the dependent variable of pay satisfaction (PSQ) in both of the samples - explaining 53 to 58 percent of the variance in pay level satisfaction as opposed to 17 to 19 percent for actual salary level based upon the coefficient of determination.

In order to ascertain whether Jaques' equity proposition concerning who will be satisfied and who will be dissatisfied is correct, the samples were each split into two groups. One group consisted of those people who believed that they were paid between 90 and 120 percent of what they actually deserved (the "satisfied" group), whereas the other group consisted of those people who were paid less than 90 percent or more than 120 percent of what they thought they deserved (the "dissatisfied" group). No person in these samples felt that they were overpaid according to the 120 percent parameter, so all "dissatisfied" individuals felt underpaid here. Two t tests were then performed between the two groups, yielding the results shown in Table 2. Results from both samples are significant beyond the .0000001 level, so it appears that Jaques' proposition does accurately predict different degrees of satisfaction with pay levels. Additionally, in order to examine the likelihood that these findings were due to common method bias, Harman's one-factor (1967) test was performed on the full, 18-item PSQ for each of the samples and found that in no case was a one-factor solution deemed to be optimal. With Harman's one-factor test, all variables under examination are entered into an exploratory factor analysis.

Table 1 – Descriptive Statistics for Two Samples

Variable	M	SD	1	2	3	4
Sample 1^a						
1. Gender	1.35	.48				
2. Age	41.21	8.92	.04			
3. Actual Salary(\$000)	88,802	92.11	-.06	.46*		
4. Felt Fair Pay	-.12	.16	-.11	.17	.27***	
5. Pay Satisf(PSQ)	3.32	.94	-.13	.31***	.41***	.76***
Sample 2^b						
1. Gender	1.34	.49				
2. Age	34.07	5.18	.07			
3. Actual Salary(\$000)	77.41	76.36	-.17	.41***		
4. Felt Fair Pay	-.15	.19	-.07	.26***	.36***	
5. Pay Satisf(PSQ)	3.17	.97	-.07	.37***	.44***	.73***
^a N = 182 business owners in Finland. ^b N = 210 business owners in Latvia ** p < .01. *** p < .001.						

Table 2 – Comparisons of Average Pay Satisfaction Scores from Satisfied and Dissatisfied Owners as Classified by Felt Fair Pay

	Satisfied	Dissatisfied		
Sample	M	M	t	p
1. Bus. Owners	4.069 (102) ^b	2.371 (80)	17.96	.0000001 ^a
2. Bus. Owners	4.112 (98)	2.353 (112)	17.07	.0000001
^a Significance level from Federighi (1959). ^b Number of people (Ss) in subgroup.				

It is assumed that if only one factor emerges from the unrotated factor solution, it is reasonably likely that common method bias may be the primary source of systematic variance observed within a data set. Conversely, the greater the number of dimensions extracted, the less likely that common method bias is the source of systematic variance within a data set (Podsakoff & Organ, 1986). The eigenvalue greater than one criterion indicated that three to four dimensions were appropriate for each sample, thus indicating that it is unlikely that common method bias is causing the observed results.

To examine the predictive ability of the measure, two hierarchical multiple-regression analyses were performed using the data. Three steps were involved in each of the multiple regressions. The first step

entered the demographic variables of gender and age, as suggested by Rice et al. (1990). The second step entered actual salary, as Heneman (1985) has prescribed that actual salary should always be controlled when testing models of pay satisfaction. The third step entered felt fair pay. Results of these analyses appear in Table 3.

In general, these findings provide strong support for the assertion that felt fair pay does an excellent job of predicting pay satisfaction in both Finland and Latvia with the owners of small to medium-sized businesses, with the contribution of each being significant beyond the .001 level.

DISCUSSION

Results from two samples of the owners of small to medium-sized businesses indicate

Table 3 - Multiple Regressions Comparing Felt Fair Pay in Finland and Latvia as Predictors of Pay Satisfaction (PSQ)

Predictor	R ²	ΔR ²
Finland		
Step 1 – Demographics	.117	.117***
Step 2 – Actual Salary	.203	.086**
Step 3 – Workplace-referent	.639	.436***
Latvia		
Step 1 – Demographics	.144	.144***
Step 2 – Actual Salary	.235	.091***
Step 3 – Workplace-referent	.584	.349***
** p < .01. *** p < .001.		
N's = 182 Business Owners from Finland and 210 from Latvia.		

that Jaques' (1961, 1964) construct of felt fair pay deserves more attention from researchers. Jaques' construct accurately predicted who would be satisfied and who would be dissatisfied with their pay levels. Jaques' construct appears to be an excellent predictor of pay satisfaction. Past thinking about pay satisfaction (for instance, Heneman, 1985; Rice et al., 1990) might lead one to expect that actual salary would serve as a strong predictor of pay satisfaction. However, multivariate analyses revealed that Jaques' measure explained more of the variance in pay satisfaction than did their actual salaries.

The findings of this study suggest at least three veins for future research. The first vein could examine what variables might influence the relationship between salary and pay satisfaction. For instance Rice et al found that salary level could explain 25 percent of the variance in pay satisfaction, while in the current samples salary levels could explain 17 to 19 percent of the variance in pay satisfaction, and Carraher and Buckley (1996) found no relationship between salary and pay satisfaction (r's = .01, .00, & .01). Some possible variables to examine include the use of family income rather than personal salary, reasons for working (economic vs. non-economic; Carraher et al. 2003), number of levels of organizational hierarchy included in the sample (Jaques, 1962; 1996), and various demographic differences within samples, such as gender composition, age, and

educational attainment (Carraher & Buckley, 1995; Miceli & Mulvey, 2000). The relationships may also differ between owners and employees of small to medium-sized businesses.

A second vein for research would focus on examining how similar or different the results found here might be across cultures (Carraher, 2003; Carraher et al. 2003). For instance, in the current study the two samples were carefully chosen so that they were from similar cultures with the business owners doing similar work. How might the results be different - or similar - if Chinese, South Korean, Japanese, or Mexican samples were added (Eshima, 2003; Zapalska & Edwards, 2001)?

A third vein for research could involve examining Jaques' equity construct in other domains. Initially, this study should be replicated with other samples. Next, Jaques' general theory could be tested for applicability with dependent variables such as general job satisfaction, satisfaction with benefits, and perceptions of the fairness of organizational pay systems. Finally, it might be possible to extend Jaques' theories beyond felt fair pay and examine the concepts of felt fair benefits and felt fair raises (Carraher, Hart, & Carraher, 2003; Heneman & Schwab, 1985).

In summary, this study has used two samples of business owners in order to examine the efficacy of Jaques' felt fair pay construct as

it relates to pay satisfaction. It appears that felt fair pay is strongly related to pay satisfaction for these samples from Finland and Latvia. Based upon these findings it appears that Jaques' construct of felt fair pay merits inclusion in future studies of pay satisfaction among business owners, and additional research is suggested.

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