Equity Theory and Its Effect on Performance Outcome

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Abstract -This study examines the concept of equity theory, its intention, and core hypothesis. I will follow a line of investigation on equity theory in regard to its fundamental importance to organizations since it is assumed to be one of the essential and most graded significant motivators. Al-Zawahreh and Al-Madi observed that equity theory is gaining deserved popularity in the human resource departments as it ensures fair results for both the employer and the employee. The scholars also conduct a survey to determine why organization-based leaders and the human resource departments need to pay close attention to this theory. The research problem is establish the link between equity and performance. Bell observes that organizational equity theory is predicated on the assumption that an employee is perceived to be paid equally for work done when compared to those in similar categories, as well as treated equally in terms of other benefits". In the same way, the model of equity is reckoned in relationship marketing as noted by Ashley, Noble, Donthu, and Lemon. Finally, according to Hofmans, perceptions of inequities lead to stress; the higher the feeling of inequity, the greater the level of stress is. Therefore, this study will grant human resource departments expansive indulgent on the value of equity in running the organization effectively. It is evident that equity is a major factor in performance, and thus, it should be prioritized.

Index Terms - Equity Theory, Organizational Performance, and Relationship

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Equity theory can be illustrated using an example from Tolman's monkeys (Bell, 2011, p.4). In this example, monkeys receive a reward for good behavior in the form of bananas or monkey chow. However, when they expected to be rewarded with bananas but got monkey chow instead, they felt cheated. Bell (2011) equates this example with feelings of inequity at the workplace (p.4). Employees may associate a certain reward with a particular effort but when they feel they have not been justly rewarded, they may resort to loafing or doing just enough to get by. In many cases, employee turnover may be high if feelings of inequity are pervasive. According to Bell, organizational equity theory is predicated on the assumption that employee perceive to be paid equally for work done when compared to those in similar category, as well as treated equally in terms of other benefits.

According to Al-Zawahreh and Al-Madi (2012), equity theory is being increasingly viewed with favor by human resource departments due to how it ensures outcomes that are fair (p.158). Equity is a major issue for government, labor, and industry. In any given situation, equity theory is applicable especially given that there is usually a form of exchange; for instance, between couples, teammates, or employer and employee. In these different situations, feelings of inequity may occur. Significantly, how employees perceive transactions between them and employers may not always be in economic terms but sometimes involves relative justice. In certain cases, employees expect to be treated equally when compared to those of equal rank, particularly in terms of pay and recognition (Al-Zawahreh and Al-Madi, 2012, p.159).

However, the concept of equity theory can also be considered in relationship marketing. In relationship marketing, the organization is concerned about what it costs to ensure customers receive benefits (Ashley, Noble, Donthu & Lemon, 2011, p.749). When customers perceive that products cost more than the benefits they derive from them, they often seek out products from other firms. In essence, therefore, relationship marketing is important because it enables managers to identify issues surrounding why customers will or will not engage in the organization's marketing programs. In this way, it is possible to adjust various aspects of the programs for mutual benefit. Ashley, Noble, Donthu & Lemon (2011) argue that a process which seeks to promote mutual benefit is based on equity theory (p.750).

According to Bell and Martin (2012), feelings of inequity lead employees to adjust how they work (p.106). For example, when an employee perceives to be earning less than he should, he will adjust his work output to what he perceives is equal to his pay. The other option may be to negotiate with the employer in order to match work output with reward, or as a last resort leave employment altogether. Interestingly, Bell and Martin point out that many organizational leaders have little idea how to communicate with employees undergoing feelings of inequity (p.107).

According to Hofmans (2012), equity theory considers reward in comparison to others. In organizations, reward may refer to recognition and support, career opportunities, or remuneration (p.473). Hofmans argues that perceptions of inequities lead to stress; the more the feeling of inequity the higher the level of stress. Pointedly, Landy and Conte observe that when equity theory is tested among employees, predictions of under-performance can be confirmed when inequity is induced but over-performance is not witnessed when employees are overpaid (as cited in Hofmans, 2012, p.474).

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