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# Understanding pay plan acceptance: The role of distributive justice theory

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**Abstract**

As U.S. businesses shift from individual rewards toward more aggregated pay systems, they must address the issue of reward allocation within groups. Specifically, should aggregate rewards be allocated equally to all group members, or should individual contributions be recognized? In this paper, the multiprinciple view of distributive justice is used as a starting point to predict employee reactions to different allocation methods. Propositions for future research that could facilitate the implementation of alternative pay plans are offered. © 2001 Elsevier Science Inc. All rights reserved.

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## 1. Introduction

The decade of the 1990s has been one of change in American compensation practices. Restructuring the nature of work from an individual, job-based focus to more flexible team-based management systems (Bridges, 1994) has led many companies to look for compensation systems more compatible with a team-oriented environment (Lawler, 1992; Seaman, 1997; Sisco, 1992), and outcome-oriented, group-level systems such as profit sharing and gainsharing have grown in popularity (Gomez-Mejia & Balkin, 1992; Hansen, 1998; Lawler, 1990).

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Additionally, many companies are changing their compensation plans through broadbanding, which involves collapsing many salary grades into a few wide bands (Abosch & Hand, 1994). Broadbanding is used to flatten organizational structures, so pay is less tied to hierarchical level, which often leads to difficulty in determining rewards (LeBlanc & Ellis, 1995).

One type of compensation that fits the needs of these changing organizations is aggregate pay plans. These plans, which are ''... any arrangement for a group of employees to receive a variable award based on increased performance against a target'' (DeMatteo, Eby, & Sundstrom, 1998), can apply to small teams or entire organizations. Some of the most popular types of aggregated pay plans are profit sharing, gainsharing, and team-based performance bonuses. Profit sharing is a group- or organization-based pay plan in which payments to employees are based on the profit of the group or organization (Gerhart & Milkovich, 1992). Gainsharing is also a group- or organization-based pay plan, but payments are based on productivity measures, rather than profits, and tend to be distributed more often than profit-sharing bonuses (Gerhart & Milkovich, 1992). Finally, team-based performance bonuses are based only on team performance, and payments may be distributed evenly among members or can vary based on performance levels of team members.

A challenge associated with all of these aggregate plans involves the allocation of group-level reward to individual group members. For instance, if the bonus for a team of five members is US$1000, how should that money be allocated to individuals on that team? Should it be divided equally so that each member received US$200? Should the US$1000 be allocated based on the existing salaries of the employees, with those earning more receiving a larger bonus? Alternately, should the reward be distributed based on evaluations of individual performance within the group? Because there is no one right answer to this question, effective allocation of aggregate pay is a difficult decision. Many practitioners have lamented the difficulty of determining allocation of rewards to individuals in groups (e.g., Hayes, 1997; LeBlanc & Mulvey, 1998; Masternak, 1997; Weinberger, 1998).

In this paper, we use an existing theoretical framework of distributive justice to address the issue of allocation of group rewards. We begin by discussing the importance of employee reactions, specifically fairness, to aggregate pay plans. We then address several contingency factors that may influence the effectiveness of different pay plan decisions. After addressing the contingency factors individually, we examine several combinations of these factors and their effects on pay plan acceptance. Finally, we identify priorities for future compensation research in this area.

## 2. Why employee reactions matter

Employee reactions to changes in compensation plans are important, as they can influence the success of such innovations. Johns (1993) argued that many human resource innovations fail because their advocates do not pay sufficient attention to the context in which the innovations will be adopted. As Kossek (1989) argued, employee reactions are an important part of that context, and employee acceptance of human resource innovations is a necessary (though not sufficient) condition for their effective implementation. Nevertheless, although stories of innovative pay plans abandoned because of employee resistance are not hard to find