PAY FAIRNESS AND EMPLOYEE ENGAGEMENT IN THE HEALTHCARE SECTOR

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PAY FAIRNESS AND EMPLOYEE ENGAGEMENT IN THE HEALTHCARE SECTOR

ABSTRACT

In today’s economy healthcare organizations face a tradeoff between cost reduction and employee engagement. Organizational justice theory suggests that employers can preserve employee engagement during labor cost reduction initiatives (e.g., pay freezes, benefit reductions) by taking steps to ensure that they are perceived as fair. However, little empirical research has examined the link between pay fairness and employee engagement outcomes. Thus, we test the relationship between pay fairness and employee trust, performance, and retention in a large healthcare organization. Our findings underscore the importance of pay fairness and suggest practical managerial prescriptions as well as directions for future research.
Employee wages and benefits are estimated to represent 70-80% of the operating expenses of healthcare organizations (Malvey, 2010). Consequently, in today’s economic downturn (Moore, Coddington, & Byrne, 2009), healthcare executives face a daunting tradeoff between reducing labor costs and fostering employee engagement. On one hand, current financial pressures have led many healthcare organizations to freeze wages, withhold bonuses and reduce employee benefits (Carlson, 2010; Evans, 2010; Kirchheimer, 2009). On the other hand, the attraction, retention and engagement of employees remain pivotal to the effectiveness and delivery quality of any healthcare organization (Ogden, 2010). Thus, employers are faced with the strategic challenge of finding ways to reduce labor costs (e.g., freezing pay, withholding bonuses, or reducing benefits) while simultaneously preserving the retention, trust, and engagement of employees. How can this be done?

According to research in organizational behavior, one strategy for minimizing the likelihood of negative employee reactions to labor cost reductions is by taking steps to maximize the fairness of such pay initiatives. Research over several decades has shown that employees’ perceptions of their employer’s fairness play a dominant role in how they respond to negative outcomes (van den Bos, 2005). Employees facing disappointing administrative outcomes (like pay freezes or reductions in benefits) are more likely to be satisfied with their jobs, be more loyal, and less likely to leave the organization if they feel that their employer acted fairly (Greenberg, 2000; van den Bos, 2005).

Yet despite the vast empirical evidence on fairness, surprisingly little research has been done on the effects of pay fairness perceptions in organizations (Shaw & Gupta, 2001). Studies have shown that pay fairness is associated with employee pay satisfaction, job satisfaction, and related perceptions (Folger & Konovsky, 1989; McFarlin & Sweeney, 1992) but little is known
about how pay fairness drives key behavioral outcomes that impact an organizations operating strategy (Heneman, 1985). Indeed, we know of no study which has examined the impact of pay fairness on employee engagement outcomes in the healthcare industry. Thus, the literature is deficient in providing healthcare managers with evidence-based insights on how to manage the labor cost-employee engagement tradeoff. To fill this gap, the purpose of our study is to examine the impact of pay fairness perceptions on organizational trust, employee job performance and actual voluntary turnover in a large healthcare organization. To that end, we begin by defining organizational justice, and then draw on theory from organizational behavior to develop and test a model of how pay fairness impacts these engagement outcomes.

**Organizational Justice**

Over the past 30 years, researchers have identified four different dimensions of organizational justice that are related but distinct and important in their own right. First, distributive justice is defined as the perceived fairness of outcomes or decisions, such as pay levels, promotions, pay raises, etc. (Colquitt, Conlon, Wesson, Porter, & Ng, 2001). Procedural justice is defined as the perceived fairness of procedures used to arrive at decision outcomes such as pay levels, promotions, or pay raises. Fair procedures are characterized by consistency, freedom of bias, accuracy, the ability to appeal decisions, and giving employees input into decisions. Interactional justice is defined as the perceived fairness of the interpersonal treatment associated with the administration of an outcome for employees. For example, pay raises or promotions could be announced and administered with varying levels of dignity, propriety and respect toward employees. Finally, informational justice is defined as the perceived fairness or adequacy of the information given about the decision. For instance, pay may be considered to be
more fair when there is an adequate and truthful explanation for why outcomes were distributed in a certain way (e.g., why benefits were reduced, or a pay freeze implemented).

Decades of research on organizational justice shows that various dimensions of justice are associated with important attitudinal and behavioral outcomes, including job satisfaction, organizational commitment, trust, organizational citizenship behavior, withdrawal outcomes, and job performance (Colquitt et al., 2001). Justice has also played an important role in explaining employee responses to perceived organizational mistreatment. Indeed, research on the legal claiming process shows that perceived justice is a primary determinant of whether or not mistreated employees will seek recourse against their employer, and how far they will pursue the legal claiming process (Bies & Tyler, 1993; Goldman, Paddock, & Cropanzano, 2004; Lind, Greenberg, Scott, & Welchans, 2000). Individuals who perceive greater injustice are more likely to be committed to seeking a formal resolution for a perceived mistreatment (Bies & Tyler, 1993; Lind et al., 2000). In summary, justice plays a crucial role in explaining employees’ responses to their employer’s actions, including reaction to pay freezes, layoffs, or other cost cutting measures.

In recent years, organizational justice theorists have advocated a “holistic” or “gestalt” approach to the study of justice (Greenberg, 2001; Hauenstein, McGonigle, & Flinder, 2001) by considering justice as a higher order construct with distinct sub dimensions (Colquitt & Shaw, 2005). This view posits that even though employees can reliably distinguish between the various types of organizational justice, the causal mechanism underlying their responses to organizational (mis) treatment is an overall sense of fairness (Ambrose & Schminke, 2009; Shapiro, 2001). Consequently, overall justice has been defined as a global judgment of the
Compensation is a key focal point of employee perceptions of organizational fairness, because “pay is arguably…the most critical outcome of organizational membership for employees” (Shaw & Gupta, 2001: 299). Thus, we propose that employees develop distinct pay fairness perceptions based on their judgments of the organization’s distributive, procedural, interactional, and interpersonal justice concerning pay and benefits. In other words, we conceptualize pay fairness as a global judgment of the fairness of one’s pay, based on the extent to which employees perceive their pay levels are fair (distributive justice), determined by fair procedures (procedural justice), administered with dignity and respect (interactional justice), and given with adequate explanation (informational justice). In the sections that follow, we draw on social exchange theory to develop and test specific hypotheses concerning the relationship between pay fairness and three key engagement outcomes which are crucial to the effectiveness of healthcare organizations (organizational trust, citizenship behavior, and actual voluntary turnover).

**Social Exchange Theory**

Social exchange theory (Blau, 1964) asserts that in addition to economic exchanges (i.e., pay and benefits in exchange for work and intellectual capital) between employers and employees, there is also a social exchange in which positive treatment, goodwill, and support in various forms motivates employees to respond with positive work attitudes and cooperation toward the organization. Indeed, the social exchange relationship is based on a reciprocity norm (Blau, 1964). Within this social exchange framework, organizational justice has long been viewed as key initiator of social exchange outcomes. When employees are treated fairly by an...
organization it is perceived as a gesture of goodwill which results in a perceived obligation to reciprocate in many different ways, including increased trust of the organization, improved cooperative behavior, and retention (Aryee, Budhwar, & Chen, 2002; Colquitt et al., 2001). We now describe each of these outcomes in turn and develop hypotheses about how they are associated with pay fairness.

Organizational trust. Trust has been defined as a “willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor irrespective of the ability to monitor or control that other party (Mayer, Davis, & Schoorman, 1995: 712). The trust literature shows that employees develop distinct trust perceptions of various parties, including co-workers, supervisors, and the organization as a whole (Robinson & Morrison, 1995).

Since the origins of social exchange theory, organizational trust has been considered fundamental to the social exchange process, because the employment relationship requires employers and employees to trust each other (Blau, 1964). Blau (1964: 98) noted that “the establishment of exchange relations involves making investments that constitute commitment to the other party. Since social exchange requires trusting others to reciprocate, the initial problem is to prove oneself trustworthy.” Indeed, organizational trust is viewed as a key outcome of organizational justice perceptions such that fair treatment fosters employee trust in the organization as a whole (Aryee et al., 2002). In support of these views, numerous empirical studies have supported linkages between justice and trust (Lewicki, Wiethoff, & Tomlinson, 2005).

Drawing on social exchange theory and empirical linkages between organizational justice and organizational trust, we argue that an organization’s policies and decisions concerning
employee compensation represent highly salient signals of the social exchange relationship that establish and reinforce trust among employees. To the extent that employees feel that their pay level is fair and that their pay is fairly determined, they will respond with greater trust in the organization. Accordingly, we hypothesize that pay fairness will be positively related to trust in the organization as a whole.

_Hypothesis 1. Pay fairness will be positively related to organizational trust._

**Organizational citizenship behavior.** A second important social exchange outcome that is likely to result from pay fairness perceptions is organizational citizenship behavior (OCB), which is defined as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system and that in the aggregate promotes the effective functioning of the organization” (Organ, 1988: 4). This type of cooperative behavior may be directed at an individual (OCB-I) or an organization (OCB-O) (Williams & Anderson, 1991). We focus here on OCB-O because the organization is the likely source of pay fairness justice perceptions, and research shows that employees direct their attitudinal and behavioral responses toward the source of the justice (Rupp & Cropanzano, 2002). Numerous studies have supported the link between justice and cooperative behaviors, such as OCB (Colquitt et al., 2001).

Social exchange theory (Blau, 1964) suggests that organizational justice is important to employees because it communicates how they are viewed by the employer (Cropanzano & Rupp, 2002). Based on the reciprocity norm (Gouldner, 1960), fair treatment obliges employees to reciprocate the organization’s support in kind by engaging in cooperative actions that support the organization’s interests and contribute to its effectiveness (Blader & Tyler, 2005; Tyler & Blader, 2000). Indeed, prior research has established consistent empirical linkages between
organizational justice and organizational citizenship behavior (Colquitt et al., 2001; Moorman, Blakely, & Niehoff, 1998; Wayne, Shore, & Liden, 1997).

We argue that given the importance of compensation to the employment relationship (Shaw & Gupta, 2001), fair pay and pay related policies represent a powerful signal of goodwill to employees. Drawing on social exchange theory we propose that employees who perceive that the organization pays them fairly will respond in kind with greater levels of cooperative behavior.

**Hypothesis 2. Pay fairness will be positively related to organizational citizenship behavior directed to the organization (OCB-O).**

**Actual voluntary turnover.** Finally, employee withdrawal from the organization is considered another key outcome of the social exchange relationship (Conlon, Meyer, & Nowakowski, 2005; Tekleab, Takeuchi, & Taylor, 2005). Employee withdrawal can take various forms including, turnover intentions, absenteeism, tardiness, and actual turnover (Hom, Caranikas-Walker, Prussia, & Griffeth, 1992; Steel & Ovalle, 1984). We focus here on actual voluntary employee turnover of valued talent because it has become a critical challenge for the healthcare industry as the population of skilled employees ages and retires (Aiken, Clarke, Sloane, Sochalski, & Silber, 2002). For example, the average age of the healthcare workforce population has been projected to reach 45.1 years in 2010 (Buerhaus, Staiger, & Auerbach, 2000). Approximately half of United States (US) healthcare employees are over 40 and will be eligible for retirement over the next 10 years (Cordeniz, 2002). Estimates suggest that turnover in the healthcare industry costs $12.3 billion annually, representing more than 5% of the total annual operating budget of healthcare organizations today (Waldman, Kelly, Aurora, & Smith, 2004).
Previous research has established linkages between pay related justice perceptions and turnover intentions, and turnover (Shaw & Gupta, 2001; Tekleab, Bartol, & Liu, 2005). Yet more research is needed on actual turnover (Heneman, 1985; Summers & Hendrix, 1991), particularly in the healthcare industry where voluntary turnover continues to be problematic. Drawing on social exchange theory (Blau, 1964), and previous models linking justice to withdrawal behaviors (Conlon et al., 2005), we propose that pay fairness will be a key determinant of employee retention. When employees feel that their pay is fair, they will reciprocate by remaining in the organization. Conversely, when they feel their pay is unfair, they will be more likely to leave voluntarily.

Hypothesis 3. Pay fairness will be negatively related to voluntary employee turnover.

METHODS

Participants and Procedure

A large healthcare organization located in the southern US provided the data for our study. Our data set was drawn from an employee attitudes survey in administered in August 2009, a supervisor survey in September 2009, and employee personnel file information from September 2009 to May 2010.

Employee attitudes survey. The employee attitudes survey was administered in August of 2009 and provided the data for pay fairness and organizational trust. One week before the employee attitudes survey link was sent out, a “pre-notice” (Dillman, 2000) email was sent to all employees. This email came from the CEO and explained the upcoming study (noting that its purposes were to better understand employee opinions and to help improve the quality of work life), encouraged employees to participate, and assured employees that the data would go directly to the researchers and that the healthcare center would not have access to individual responses. A
week later, the email containing a link to the online survey was sent to employees. Three additional email reminders were sent over the subsequent two weeks to employees who had not yet completed the survey.

We guaranteed participants that their responses would be kept strictly confidential, due to the sensitive nature of the data, and ensured them that under no circumstances would anyone inside the organization have access to their data or be able to identify them in any way. They also provided email addresses and employee identification (ID) numbers to link participants confidential survey responses to their personnel file data. Employees used their ID as a username to access the online survey as well as to verify that they were indeed employees of the healthcare organization, for security purposes, as they logged into the independent and secure server.

**Supervisor survey.** One month after the employee attitudes survey was sent, the host organization conducted their annual employee performance evaluation. In conjunction with that evaluation, we asked all supervisors in the host organization to rate each of their subordinates on their organizational citizenship behavior (see below for details). The supervisor survey had a 100% response rate.

**Personnel data.** The host organization gave us access to demographic and turnover data in personnel files for the 9 month period following the employee attitudes survey (see below).

**Final sample.** The employee attitudes survey was sent to 5,456 employees. We obtained responses from a total of 2,895 employees, resulting in a response rate of 53.1%. From that sample of employees, we excluded 575 responses due to missing data (using listwise deletion as a conservative approach to analyzing the data) and insufficient information to link survey responses to personnel archival records. Thus, our final sample consisted of 2,320 employees.
On average, respondents to our survey were 42 years-old and had been with the organization 8 years. Approximately 84% of the respondents were female, and 81% were Caucasian. In terms of education, 8% of our participants had a high school diploma or less, 58% had some college without a four-year degree, 22% had obtained a four-year-college degree, and 12% had graduate work in progress or had received a master’s, professional, or doctoral degree. Our sample consisted of 21% office and clerical workers, 5% support services workers, 8% professional services workers, 15% technical services workers, and 34% RN and other nursing services staff. The remaining 17% were management and physicians (including coordinators, team leaders, managers, directors, administration, and physicians). There were no significant differences between the demographics of our sample and the organization as a whole.

Measures

Pay fairness. Pay fairness was measured using a 20-item measure adapted from Colquitt’s (2001) organizational justice subscales. The items were adapted so that the employing organization was the source of the justice perceptions and that pay was the referent for each of the items. Employees used a 5-point Likert-type scale on the employee attitudes survey to indicate their perceptions of the pay fairness on each of the four different types of justice perceptions; i.e., interactional, distributive, procedural, and informational justice. All pay fairness items are included in the Appendix.

We averaged the four pay fairness subscales following Colquitt and Shaw’s (2005) recommendations that in field settings, organizational justice may be appropriately modeled as a higher order latent construct based on four justice sub dimensions (distributive, procedural, interactional, and informational). Following their approach, confirmatory factor analysis indicated strong support for a higher order model of pay fairness with one latent superordinate
factor and four sub factors corresponding to each sub dimension of pay fairness \( \chi^2 = 3327.79, p < .001, \text{df} = 166; \chi^2 / \text{df} = 20.05; \text{CFI}=.95; \text{IFI}=.95; \text{SRMR}=.05; \text{RMSEA}=.08, 90\% \text{ CI: .08, .09}] 

Indeed, our model fit was highly comparable to the fit that Colquitt and Shaw (2005) reported for a higher order model of overall justice based on 16 independent samples of data.

Thus we aggregated the four individual justice scales into a higher order factor of pay fairness. The chi-square to degrees of freedom ratio was higher than the typically considered acceptable maximum of 5 (Hair, Anderson, Tatham, & Black, 1998; Kline, 2005). However, this index is highly sensitive to sample size and can potentially lead to erroneous rejection of well-fitting models with large samples (Bagozzi, 2004; Kline, 2005; Hair et al., 1998) if other fit indices are not consulted. Therefore, in our evaluation of the fit of measurement for pay fairness, we focused on fit indices that are less sensitive to sample size (Hair et al., 1998; Kline, 2005). The reliability of the overall scale was \( \alpha = .95 \).

**Organizational trust.** We measured organizational trust with Mayer and Davis’ (1999) seven-item scale. These items were included on the web-based survey. Using a seven-point Likert scale, ranging from “strongly disagree” (1) to “strongly agree” (7), participants indicated their trust for the organization. Sample items include “My employer is always honest and truthful,” “In general, I believe my employer’s motives and intentions are good,” and “I think my employer treats me fairly.” The reliability of the scale was excellent, \( \alpha = .97 \).

**Organizational citizenship behavior.** One month after the initial survey, supervisors rated their employees on organizational citizenship behaviors toward the organization using Lee and Allen’s (2002) eight-item scale using a 5 point (1=lowest OCB, 5=highest OCB) Likert-type response format. Sample items include “[Employee] attends functions that are not required but that help the organizational image,” “[Employee] defends the organization when other
employees criticize it,” and “[Employee] demonstrates concern about the image of the organization.” Alpha reliability for this scale was .95.

**Voluntary turnover.** Individual level turnover information was obtained from the organization’s personnel archives, and matched to employee’s confidential survey data through employee ID numbers. In this organization, 322 employees left the organization voluntarily during the nine months following the employee attitudes survey, 97 (30%) of whom had participated in our previous survey. Voluntary turnover was coded 1 while involuntary turnover or active employee was coded 0.

**Control variables.** We controlled for four variables in our analyses: age, organizational tenure, education, and gender. We selected these controls primarily because each could be related to all of the variables in our conceptual model and confound our findings. Specifically, longer tenured employees may show higher levels of organizational citizenship behavior and higher levels of organizational trust. Older and more educated employees may be less likely to leave the organization and be satisfied with their current position. Moreover, due to the high percentage of women who work in the healthcare field, we controlled for gender. Age and tenure (actual years), education (on a 1 to 9 scale where 1 = less than a high school education and 9 = PhD/MD/JD), and gender (coded 0 for male and 1 for female) were drawn from the employees’ personnel archives.

**RESULTS**

The descriptive statistics and correlation matrix are presented in Table 1. The correlation results indicate that pay fairness was positively related to both organizational trust and organizational citizenship behaviors focused on the organization, and negatively related to voluntary turnover.
We tested hypotheses 1 and 2 using OLS multiple regression analysis. These hypotheses predicted that pay fairness would be positively related to both organizational trust and organizational citizenship behavior directed at the organization. Model 1 of Table 2 indicates support for Hypothesis 1 ($B = 1.31$, $p < .001$), and Model 2 of Table 2 indicates support for Hypothesis 2 ($B = .16$, $p < .000$). We tested hypothesis 3 using logistic regression because of the dichotomous nature of voluntary turnover. As Model 3 of Table 2 indicates, pay fairness was significantly and negatively related to voluntary turnover ($B = -.46$), supporting hypothesis 3. In sum, regression analysis showed that controlling for age, organizational tenure, education, and gender, pay fairness explained significant incremental variance in all 3 outcome variables.

DISCUSSION

Healthcare organizations today face difficult tradeoffs between reductions in labor costs, and preserving employee engagement. Our study provides evidence that pay fairness initiatives may be an effective means of addressing that tradeoff. Indeed our results show that pay fairness was significantly associated with three crucial employee engagement outcomes: perceived organizational trust, citizenship behavior, and actual turnover. In practical terms, for every one unit increase in pay fairness (on a 7 point scale ranging from very strongly disagree to very strongly agree), employees showed a 19% increase in organizational trust, a 3% increase in organizational citizenship behavior, and a 13% reduction in the likelihood of voluntary turnover. Thus, in our sample even slight increases in employee pay fairness perceptions were associated
with meaningful differences in employee engagement. Consequently, as they seek ways to minimize employee labor costs, organizations may preserve or significantly improve employee engagement by taking steps to maximize perceived fairness.

Organizational justice theory provides numerous managerial prescriptions about how to maximize pay fairness perceptions among employees. Indeed, over the past three decades, justice researchers have identified specific justice rules (Colquitt, 2001; Colquitt & Shaw, 2005) that can be fruitfully applied by healthcare managers in the context of compensation and benefits reductions to maximize employee pay fairness perceptions. These justice rules (see Table 3) represent each of the four sub dimensions of justice we noted at the outset of the paper: distributive justice, procedural justice, interactional justice, and informational justice. For example, the justification rule of informational justice suggests that employees should be given an adequate explanation for pay related initiatives. Thus, when organizations announce pay freezes or changes to employee benefits, employers could maximize pay fairness perceptions by giving employees a candid and complete explanation for why the change is being made. Table 3 summarizes additional examples of how justice rules can be applied to compensation and benefits initiatives.

In addition to practical contributions, our study makes two contributions to the justice literature. First, our findings support recent thinking by justice theorists conceptualizing justice as a higher order construct combining procedural, distributive, interactional, and informational justice sub dimensions (Colquitt & Shaw, 2005). Specifically our confirmatory factor analysis results are consistent with arguments that employees formulate global views about fairness based
on these sub dimensions (Greenberg, 2001; Hauensteien et al., 2001). Second, our study responds to calls in the pay fairness literature for more attention to behavioral outcomes (Heneman, 1985). Indeed, the vast majority of pay fairness research has been focused on identifying the antecedents of pay fairness (Shaw & Gupta, 2001; Tremblay, Sire, & Balkin, 2000). We know of no study that has examined the relationship between pay fairness and organizational citizenship behavior in the healthcare industry.

**Study limitations and future research directions.** Certain methodological limitations to the study provide additional opportunities for future research. First, this study was conducted in a single healthcare organization in the US, limiting the generalizability of its findings to other organizations industries and countries. Future research should examine the impact of pay fairness on engagement outcomes across a wide variety of industries across the world. Indeed it is possible that the relationship between pay fairness and behavioral outcomes is influenced by local laws, customs, and culture. Second, our employee attitude survey was conducted prior to the collection of OCB and turnover data, which helps assuage concerns that the findings are due to mono-method bias. However, our study design was cross sectional in nature, and thus unable to address questions about how pay fairness perceptions vary within individuals over time. Future research could advance pay fairness research by examining how intra-individual change in pay fairness is associated with employee engagement outcomes. Finally, our study was conducted at a single (individual) level of analysis. Future research could advance the pay fairness literature by exploring pay fairness climate as a group level construct and examining its relationship with group or unit-level outcomes. For example, given the prevalence of group and unit based rewards such as gainsharing and profit sharing in the healthcare industry (Barbusca & Cleek, 1994; Ketcham & Furukawa, 2008) it would be interesting to study how work units differ
in pay fairness, and how those differences are associated with efficiency, performance, and retention rates at the unit level. Indeed, future research could examine how an emphasis on organizational justice impacts the ability to execute business strategy.

**CONCLUSION**

In a large US healthcare organization, we examined the relationship between pay fairness and three employee engagement related outcomes: organizational trust, organizational citizenship behavior, and actual voluntary turnover. Our results showed that pay fairness was significantly associated with each of these outcomes. Thus, healthcare organizations may benefit substantially by implementing practices and procedures to increase pay fairness among employees, particularly in an economic climate where reductions to labor costs are at a premium.
REFERENCES


Lexington, MA: Lexington.


TABLE 1
Descriptive Statistics and Intercorrelations of Study Variables

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Notes: N= 2320. Where appropriate, coefficient alphas are reported in boldface on the diagonal.

*p<.05

**p<.01
### TABLE 2
Results of Multiple Regression Analyses and Logistic Regression Analysis

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<td>R²</td>
<td>.51</td>
<td>.07</td>
<td>.07†</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>.51</td>
<td>.07</td>
<td>--</td>
</tr>
<tr>
<td>Model Summary</td>
<td>F= 595.30***</td>
<td>F= 36.43***</td>
<td>$\chi^2= 55.24***</td>
</tr>
</tbody>
</table>

Notes: N= 2320. Unstandardized coefficients are reported, with standard errors in parentheses. †= Nagelkerke R²

* p<.05
** p<.01
*** p<.001

For every 1 unit increase in pay fairness, there is a 1.31 unit increase in trust. For every 1 unit increase in pay fairness there is a .16 unit increase in OCB.
<table>
<thead>
<tr>
<th>Justice Type</th>
<th>Justice Rule</th>
<th>Rule Application: <em>Employee compensation and benefits should</em>…</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributive</td>
<td>Equity</td>
<td>Be distributed in proportion to employees’ individual inputs (e.g., job performance).</td>
<td>Leventhal (1976)</td>
</tr>
<tr>
<td>Procedural</td>
<td>Process Control</td>
<td>Provide employees with opportunities to express their views and input into compensation policy making.</td>
<td>Thibaut &amp; Walker (1975); Leventhal (1976)</td>
</tr>
<tr>
<td></td>
<td>Decision Control</td>
<td>Give employees opportunities to influence compensation outcomes (e.g., raises, promotions, pay freezes, benefit decisions).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consistency</td>
<td>Be administered consistently across employees, and over time.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bias Suppression</td>
<td>Be neutral and free of bias.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accuracy</td>
<td>Be based on accurate information.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correctability</td>
<td>Include mechanisms for employee appeals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Representativeness</td>
<td>Be representative of concerns across all employee groups.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ethicality</td>
<td>Uphold ethical and moral standards.</td>
<td></td>
</tr>
<tr>
<td>Interactional</td>
<td>Respect</td>
<td>Utilize respectful communication.</td>
<td>Bies &amp; Moag (1986)</td>
</tr>
<tr>
<td></td>
<td>Propriety</td>
<td>Refrain from improper comments or treatment (e.g., maintain employee dignity).</td>
<td></td>
</tr>
<tr>
<td>Informational</td>
<td>Justification</td>
<td>Include adequate explanations for why pay and benefits decisions were made.</td>
<td>Bies &amp; Moag (1986)</td>
</tr>
<tr>
<td></td>
<td>Truthfulness</td>
<td>Be truthful and candid with employees.</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX
Pay Fairness Items Adapted from Colquitt (2001)

All items below use the following Likert type response scale

1=To a Very Small Extent, 2=To a Small Extent, 3=Neutral, 4=To a Large Extent, 5=To a Very Large Extent

**Distributive Justice**
At [name of organization], to what extent:
1. does your pay reflect the effort you have put into work?
2. is your pay appropriate for the work you have completed?
3. does your pay reflect what you have contributed to the organization?
4. is your pay justified given your performance?

**Procedural Justice**
The following items refer to the decision making procedures that [name of organization] uses to determine your pay. To what extent does [name of organization]:

1. enable you to express your views and feelings?
2. allow you to influence decisions concerning your pay?
3. act consistently?
4. use procedures that are free of bias?
5. use accurate information in decision making?
6. allow you to appeal decisions about your pay?
7. adhere to ethical and moral standards?

**Interactional Justice**
The following items refer to the decision maker(s) at [name of organization] who determine your pay. To what extent have they:

1. treated you with respect?
2. treated you in a polite manner?
3. treated you with dignity?
4. treated you in a courteous manner?

**Informational Justice**
The following items refer to how [name of organization] communicates pay-related information to you.

1. Has [name of organization] been candid in its communications with you?
2. Has [name of organization] explained pay related procedures thoroughly?
3. Were [name of organization]’s explanations regarding pay related decisions reasonable?
4. Has [name of organization] communicated details about your pay in a timely manner?
5. Has [name of organization] seemed to tailor pay related communications to individual’s specific needs?