

REVIEW ARTICLE

Making sense of egalitarian pay: Reconceptualising its treatment in organisations

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Abstract

In this paper, we offer an intraorganisational sensemaking perspective on how organisational members interpret egalitarian forms of pay. Specific focus is given to managerial (non)communication of diverse rationales for egalitarian pay practices. We integrate a wide range of research and descriptive accounts to organise schema-relevant concepts into a typology of rationales that inform the sensemaking process, as ultimately observed in employee receptivity and response to egalitarian pay practices. The culmination of our conceptual development is a prescriptive framework on organisational communication of egalitarian pay practices to its members. We offer a future research agenda and propositions to test the validity of this developed framework and conclude with a discussion of limitations and theoretical and practical implications.

KEYWORDS

egalitarian pay practices, human resource strategy, sensemaking, organisational communication

1 | INTRODUCTION

This is a conceptual paper about egalitarian pay in organisations, and in particular, how such pay practices are variously formed and effectively communicated. We take a sensemaking perspective (Brown, Colville, & Pye, 2014; Maitlis & Christianson, 2014; Weick, 2012) by emphasising how members interpret, largely through social processes, egalitarian forms of pay. Specific focus is given to how managerial communication of diverse rationales for egalitarian pay practices can inform this process and positively affect the meaning members attach to these practices – ultimately key to their receptivity and response. A sensemaking perspective is relevant when there is ambiguity, novelty or equivocality in ones environment or circumstances. This applies in the present case in that egalitarian pay

practices are generally not legitimated in the workplace, in comparison with strongly institutionalised performance pay practices, more common in cultures such as the U.S.

We position our conceptual treatment of egalitarian pay practices as particularly germane to human resource management and its scholarly discourse by taking an intraorganisational focus. The existing empirical organisational literature on egalitarian pay rests on rather oversimplified theoretical justifications related to harmony and cooperation, and is countered by similarly oversimplified established views of equity that call for unequal pay for unequal contributions (Shaw, 2014). Despite progress over the past decade or more in identifying contingencies and subtleties with regards to the pay-performance relationship (see Shaw, 2014 review), empirical research focuses on specific moderating variables rather than a broader understanding of the sensemaking process. We integrate a wide range of diverse findings related to this topic along with descriptive accounts in order to derive a typology of egalitarian pay justifications within organisations. Once established, the typology permits us to develop a prescriptive 'sensegiving' framework on organisational communication of egalitarian pay practices to its members.

Our approach is in keeping with the important role played by employee sensemaking and shared perceptions of human resource practices in determining the strength of overall human resource systems (e.g., Farndale, Hope-Hailey, & Kelliher, 2011; Ostroff & Bowen, 2016). It is also the case that egalitarian related pay issues are of great contemporary concern. This is exemplified, for instance, by a rising public and regulatory focus on the ratios between CEOs and the lowest paid workers of organisations. We believe these trends call for greater theory development relative to the functional role of egalitarian pay practices within organisations.

As noted, a wide range of literature is integrated in deriving this conceptual treatment. However, although we do provide an overview of relevant streams of research, it is also important to emphasise that this is at its core a sensemaking paper, not a paper on organisational fairness or social justice, though each contributes language and certain points of reference for the emergence of sensemaking around egalitarian pay practices in organisations.

The overall flow of this paper is as follows. First, we outline the sensemaking perspective, and discuss why such a perspective is pertinent to an exploration of egalitarian pay practices. Next, in contrast to standard conceptualisations of employee inputs as operationalised under a distributive "equity" lens to justify the presence or absence of pay differentials, we offer a more nuanced and well-specified view of inputs that can inform sensegiving and sensemaking. Next, to establish construct clarity of egalitarian pay outcomes, we describe relevant philosophical underpinnings, and also describe how egalitarian pay may be understood in terms of relative (as opposed to absolute) equality, that is, outcomes that intentionally veer away from proportionality. We then discuss the crucial role played by organisations transparency about, and strategic communication of pay practices, particularly as these apply to sensemaking relative to egalitarian pay. Finally, putting the above together, we examine how diverse conceptualisations of inputs in concert with their framing by organisations may ultimately engender receptivity and productive response to egalitarian pay practices on the part of organisational members. We conclude with a guiding agenda, including propositions, for future research exploration.

2 | THE ROLE OF SENSEGIVING IN EGALITARIAN PAY

Sensemaking is the process by which individuals collectively form understanding and meaning of a shared experience, which ultimately plays a central role in the determination of human behaviour (Weick, 1995, 2005). This paper constitutes an application of the first critical stage in the sensemaking process, that is, "sensemaking occurs when a flow of organisational circumstances is turned into words and salient categories" (Weick, 2015). However, sensemaking is more than a cognitive process, it also often entails a communication aspect of sensegiving (Kramer, 2017). Sensegiving provides explicit descriptions and plausible explanations for others of the otherwise equivocal cues in the organisational environment (Weick, 1995). Organisations can effectively guide the sensemaking process of its members and other stakeholders through structured, intentional sensegiving accounts of organisational events (Schnackenberg, Bundy, Coen, & Westphal, 2019).

In terms of egalitarian pay practices, the absence of sensegiving leaves these practices vulnerable to other interpretations. In particular, when performance pay practices are the organisational norm, sensemaking of egalitarian practices are logically more likely to occur through the lens of this status quo pay practice. Indeed, sensemaking theory and research show that individuals interpret cues from what they know and have experienced, especially in the absence of competing interpretations or a “sensebreaking” void in meaning (Kramer, 2017; Pratt, 2000).

Following this logic, we also suggest that the impact of our subsequently posed sensegiving framework is bounded or moderated by the degree to which egalitarian pay practices are already accepted or expected by employees. For example, because organisational culture contributes to a shared mental schema for sensemaking (Harris, 1994), organisations with more egalitarian cultures, such as Wholefoods and Starbucks, might be anticipated to garner somewhat less impact from engagement in sensegiving surrounding egalitarian pay practices. Indeed, it is generally accepted that organisation-context-specific schemas are most relevant to understanding sensemaking within organisations (Harris, 1994). Consequently, while it can also be argued that societal or national cultures impact sensemaking processes relative to egalitarianism, we focus herein at the level of organisational culture. We do this in part to draw boundary conditions relative to the overall scope of our paper, but also because the influence of societal culture on sensemaking in this domain is further removed and appears more complex. For instance, Piazola (2018) found stronger preference for economic equality (or greater aversion to inequality) in a US sample as compared with a German sample, even though Germany has a social market economy and substantial welfare state, in contrast to the US.

3 | REDEFINING UNDERSTANDING OF EMPLOYEE INPUTS

The notion of employee inputs is integral to the classic “equity” framework of organisational distributive justice. Equity theory pivots on individuals perceptual evaluation of the ratio between their inputs and outcomes (Adams, 1963, 1965). That is, a comparison of what one perceives they put into work (e.g.: hard work, performance) relative what they receive (preeminently: pay). This proportionality-based specification of inputs and outcomes in the organisational justice literature contrasts with how inputs and outcomes are conceptualised under conditions of distributive equality, under which “all outcomes are equal regardless of inputs” (this wording is the standard conceptualisation in the extant literature; Deutsch, 1975, 1985, 1986; Distributive Justice, 2017; Forsyth, 2006; Lerner, 1984; Leung & Park, 1986, Mannix, Northcraft, & Neale, 1985).

But we challenge this received conceptualisation. Following but also elaborating upon the insights of Morand and Merriman (2012), we suggest there are three distinct conceptualisations of inputs possible that are particularly germane to egalitarian pay: 1) inputs are substantially unknown; 2) inputs are largely known yet downplayed; and 3) all inputs are existentially equal.

Inputs Unknown. Here inputs are either unknown or not susceptible to clear/unambiguous measurement. This references the stark fact that it is not always possible to know with precision what diverse individuals inputs are as a basis for justifying equitable differences in distribution (e.g., Campbell & Lee, 1988; Cheng, 2014; Ilgen, 1993; Scully, 2000). Of course, all measurement systems are imperfect, but we are saying the degree of imprecision can be substantial, and that this comprises a legitimate justification for allocative equality.

Inputs Known but Ignored or Downplayed. Here differential contributions are known/susceptible to measurement yet said inputs are intentionally ignored or downplayed by the organisation relative to allocation of outcomes. This construal of inputs is characteristic of many of the extant studies (cited above) on allocative processes within small groups or teams. Such studies find that when member contributions are known to differ, but the expressed goal is one of engendering cooperation or community, awarding all members an equivalent outcome (i.e. regardless of inputs) is deemed fairest. Differential inputs are discounted in the interest of creating a motivated harmony.

Inputs Existentially Equal. A third possibility for conceptualising inputs under conditions of distributive equality suggests that all inputs are deemed de facto equal. That is, while there will always be some degree of individual

differences relative to contributions, at an existential level it can be said that all human beings possess and merit a basic sense of respect and self-worth. Translated into the input/outcome terminology of justice theory, an individual's basic humanity comprises an input, and as such all inputs are necessarily equivalent. We need not deal with issues of measurement, nor downplay differential inputs. This conceptualisation maps onto how Rawls (2001) treats inputs in his seminal work.

Each conceptualisation of inputs comprises a unique and theoretically important category. And, as will be discussed later, each carries distinct ramifications for how egalitarian pay can be leveraged as an intentional basis for pay practices by organisations, thereby enhancing members ensuing sensemaking process in this domain. But next, we elaborate and justify our conception of outcomes under egalitarian pay practices.

4 | BROADLY DEFINING EGALITARIAN PAY OUTCOMES

Organisational justice models of distributive equality conceptualise outcomes to mean perfect equality in the sense that "all outcomes are equal, regardless of inputs" (Reis, 1984; Sabbagh, Dar, & Resh, 1994; Sheppard, Lewicki, & Minton, 1992). In contrast, we would define egalitarian pay in more general terms, as occurring when outcomes veer in the direction of greater equivalence than would occur under conditions of strict proportionality. In short, equity (proportionality) and equality are best understood as ideal types (Waters & Waters, 2015), and egalitarian pay can be said to fall in between these two polar types. Yet we do not, for the present purpose, suggest egalitarian pay is synonymous with the constructs of pay dispersion or pay compression. Egalitarian pay is more than simply a measurement of the degree of variance in pay across some segment of the organisation. "Egalitarian" in philosophical terms, and within the present framework, carries with it some degree of belief in intentional equal treatment. In keeping with this perspective, we turn to classic philosophical footings of distributive justice at the societal level to flesh out the concept of egalitarian pay and its underlying belief of equal treatment.

4.1 | Philosophical footings of egalitarian pay

Theoretically, individual preference for an egalitarian distribution of resources such as income is encouraged by a "veil of ignorance" regarding the benefits and burdens that would personally accrue (Rawls, 1971, 2001). That is, when one's relative standing remains unknown, rational economic self-interest is served by favouring the needs of the least-advantaged members of society since that group may include oneself (Rawls, 1971, 2001). Prominent economists such as Arrow (1973) and Harsanyi (1975) questioned the precise decision rule outlined by Rawls, that individuals will choose an allocation of resources that maximises the minimum distribution for the least well off. Economists have also pointed out that utility (i.e., value) of goods varies across individuals (Arrow, 1973; Sen, 1992). However, there is consistency between Rawls and economists regarding the general notion of individual risk aversion in the context of uncertainty (Arrow, 1973).

Given the above, the point of debate then becomes to what degree individuals will hypothetically choose to raise minimum outcomes. It is noteworthy to clarify that even the axioms put forth by Rawls do not suggest individuals would choose distribution rules that result in a perfectly equal distribution across society. Some degree of inequality is recognised to benefit all by incentivising economic production, but Rawls calls for these inequalities only to the extent that they benefit the worst off more than so than others. It is through this means, Rawls suggests, that social harmony is maintained. Rawls' treatise fundamentally calls for acceptance of a social contract in which such social harmony is valued. This last philosophical point has some empirical support. For instance, findings from a nationally representative American sample suggest that a moderate degree of wealth inequality across the society as a whole is preferred to highly differentiated or perfectly equal distributions – regardless of respondents' current wealth and absent a Rawlsian veil regarding their placement in society (Norton & Ariely, 2011).

To extend this broad understanding of distributive justice at the societal level to a more specific understanding of intraorganisational pay distributions, we focus on two distinct supporting aspects of egalitarian distributions woven into Rawls work – uncertainty of ones relative standing and regard for social harmony. We later describe how uncertainty, a veil of sorts, surrounding pay determination exists at times within organisations. We also consider intraorganisational interpretations of a social contract via how such is activated and accepted at a team level and at the broader level of the organisation as a whole, most akin to Rawls portrayal. We put forth that employee sensemaking of, and ultimate receptivity and response to, egalitarian pay relies on how pay is communicated in relation to uncertainty and a social contract, specifically using the prevailing mental schemata of proportional equity-based practices.

4.2 | Egalitarian pay in practice

Proportional (i.e. equity-based) practices comprise the status quo in terms of employees prevailing mental schemata relative to how and why organisations go about making pay allocation decisions. For instance, the equity-based status quo manifests in the common practice of linking performance reviews to pay increases (horizontal proportionality of pay), establishment of pay grades (vertical proportionality of pay) and even in the choice of language in legislative 'equal' pay acts – that all employees be paid the same for comparable work. And yet, even though equity seems the prevailing norm, particularly in cultures such as the United States, actual practice represents many – often unspoken – deviations from this norm.

For a stark example of this, while many organisations officially aver that their pay systems are merit based, in reality such systems lean considerably towards the egalitarian end of the spectrum, likely far more than these organisations would care to admit. In fact, research shows that even in so-called merit pay systems, increments associated with high performers are often so meagre as to obviate any meaningful distinctions (Campbell, Campbell & Chia, 2015). Many of our own MBA students aver that while their companies pay policies are officially merit based "everyone pretty much gets the same raise." Heneman (1992) and Gerhart, Rynes, and Fulmer (2009) note that merit ratings (and thus merit increases) tend to have a high mean and little variance. Similarly, a 2002 HayGroup survey asked employees their degree of agreement with "If my performance improves, I will receive better compensation." Only 35% agreed, 27% neither agreed nor disagreed, and 38% disagreed with the statement.

Consider some additional examples of pay practices where outcomes are shift towards egalitarian practices. Team-based pay, under which equal rewards (typically a bonus or a portion of pay) are allotted to members, is an obvious example that fits this category's circumstances. Also included are any bonuses paid to employees that are less than merit based. For example, in 2017 Porsche gave all 21,000 employees a bonus to celebrate its "best sales year ever". Every employee, including janitors and assembly line workers, received an equivalent bonus of 9,111euro (\$9,825 at the time; Porsche, 2017). Gainsharing, profit-sharing and broad-based stock option plans (ESOPs) follow a similar rationale. All ignore known individual contributions to some extent. For instance, all group members may share equally in a gainsharing pool. Profitsharing is commonly distributed as a percentage of employees annual pay such that the relative value of the incentive to ones total pay is the same even though the absolute dollar amounts vary. ESOPs extend a component of compensation throughout the organisation that is often otherwise reserved for only the executive level. However, it is important to make a subtle distinction here between these practices as substitutes for fixed pay versus an add-on to existing pay. For instance, a stream of research on shared capitalism shows that organisational use of performance-based pay may serve to limit fixed pay obligations and to place employee pay at risk for motivational purposes (Kruse, Blasi, & Park, 2010). This type of application is not in keeping with our definition of egalitarian pay and represents just one way to operationalise the forms of pay noted in this paragraph (Blasi, Freeman, Mackin, & Kruse, 2010).

Egalitarian pay within organisations is certainly not limited to forms of variable pay. Hierarchical pay levels also demonstrate steps towards egalitarianism in some cases. This occurs when organisations increase the pay

floor for lower paid employees, as Gap and Starbucks have done. Pay also becomes more egalitarian when organisations set caps on ratios between the lowest paid worker and the CEO, as Whole Foods has done. Consider Cobb and Stevens (2017) reasoned argument that larger firms are more likely to attempt to establish a sense of internal equity by engaging in wage compression among subsets of workers. Consistent with this broad range of examples, empirical support identifies equality allocations within organisations as one of absolute equality applied to *all* people and a standard of bounded equality applied more narrowly to salient referent others, (Simpson & Varma, 2006).

5 | THE VITAL ROLE OF COMMUNICATION IN EGALITARIAN PAY PRACTICES

Pay systems do not operate in a social or informational vacuum. Individuals sensemaking of pay practices and their ensuing receptivity are to a degree socially constructed. Information that individuals receive relative to amounts of pay, and methods used to determine any pay increments, crucially affect how compensation is received by members (Day, 2012; Lawler, 1995; Noe, Hollenbeck, Gerhart, & Wright, 2003).

We suggest that for an egalitarian system to realistically function as an understood base of pay distribution, that by definition individuals require information regarding the relevant context under which egalitarian outcomes apply (Simpson & Varma, 2006). As we described earlier, egalitarian pay is more than simply a measure of variance, it requires by philosophical standards an intentional treatment (e.g., Rawls, 2001) and an explicit understanding of the relevant group to which this intentional treatment is applied (Simpson & Varma, 2006). We specifically suggest that any egalitarian pay practice in which recipients are blind as to the intentional amounts remunerated to others simply fails to meet the essential criteria for an egalitarian pay practice to exist, because without such information actors have no inherent basis for sensemaking from an egalitarian perspective. Consequently, pay outcome transparency is one important aspect of the social process by which sensemaking of egalitarian pay takes place. Indeed, we suggest this aspect is precisely why many studies of the effects of low wage dispersion deal with either sports teams (e.g., Bloom, 1999; also see Shaw, 2014, review) or public-sector universities (Pfeffer & Langton, 1993) where salary information is known. Yet the existence of salary transparency in these instances tends to be treated as a methodological convenience that enabled the authors to conduct their study, whereas we contend it is a vital element for the sensemaking process to function with regards to egalitarian pay.

At the same time, beyond transparency of the pay outcome itself, communication or framing of these outcomes in egalitarian terms is also necessary. We believe this aspect is particularly important because there is presently little institutional narrative or accepted organisational norms legitimating the role of egalitarian pay. For example, from an institutional environments perspective (e.g. Tolbert & Zucker, 1999) merit pay comprises a well ensconced and accepted practice. Within public and private sector organisations, management and union members alike foremost endorse adherence to an equity allocation standard (Simpson & Varma, 2006); (although unionisation often does tend to push wages in the direction of greater compression). And at a societal level, proportionality of rewards is a deep-rooted cultural norm, such as outlined in Webers classic on the protestant work ethic and capitalism (1958). Proportionality is thus an implicit background assumption operating in the minds of most organisational members. But in contrast, an egalitarian lens is decidedly less common when it comes to making sense of or justifying pay allocations.

There are some mitigating circumstances to consider in stating the importance of pay transparency and framing for sensemaking of egalitarian pay. Regarding pay transparency, older research reviews concluded that pay openness leads to several positive attitudinal and behavioural outcomes (Colquitt, 2001; Colquitt, Conlon, Wesson, Porter, & Ng, 2001). Similarly, some recent research also provides evidence that pay openness fostered perceptions of fairness among members (Bamberger & Belogolovsky, 2010), and increased task performance and retention (Belogolovsky & Bamberger, 2014). Other recent research, however, suggests a more nuanced view of the effects of pay openness,

particularly with respect to relatively lower-paid employees. Evidence from Bamberger and Belogolovsky (2017) indicated that in the context of a pay for performance system lower paid subjects exhibited less helping behaviour relative to higher paid subjects. Results from a study of a university system in the US (Card, Mas, Moretti, & Saez, 2012) suggested that drawing employee attention to relative pay levels within the organisation decreased satisfaction and increased turnover intentions of lower paid employees, though had no effects on higher paid employees. Results of these studies do not preclude the view that pay openness is important to the understanding of egalitarian pay, we suggest it instead underscores the prevalence of an equity-based lens of sensemaking within organisations and that pay openness may result in a clash with such systems. Also of course, pay transparency, is not an 'all or none' phenomenon; openness and secrecy practices fall along a graduated continuum of practice (Marasi & Bennett, 2016). Along this continuum one finds various degrees of openness relative to items such as pay ranges, pay raises, pay averages, individual pay levels, and/or the entire pay structure. We are not advocating any one specific type or degree of openness. Rather, we are simply pointing out the conceptual importance of some degree of pay openness in order for sensemaking of egalitarian pay.

Regarding the necessity of framing egalitarian pay to enable sensemaking, research shows that both national (Kashima, Siegal, Tanaka & Isaka, 2007; Leung & Bond, 1984; Robbins, Starr, & Rochat, 2016) and organisational (Mannix, Northcraft, & Neale, 1995) cultures significantly impact individuals preferences towards equality versus equity allocations. Thus, our view that little institutional narrative or accepted organisational norms exist to legitimate the role of egalitarian pay will clearly vary by context. We inhabit a culture (the authors are from the U.S.) in which (perhaps in part emanating from the ideological battles of the latter half of the 20th century; the 'Cold' war) notions of egalitarian pay were once equated with communism (and currently associated with socialism). However, even in cultures that traditionally have held positive egalitarian beliefs and egalitarian systems are not an uncommon organisational pay lens, we suggest there is still much room for framing to influence the sensemaking process. This is because we believe the various construals of inputs in our typology offer organisations an important strategic lever – as we will explore more deeply in the next section of this paper – when it comes to fostering organisational member sensemaking and their ultimate response to egalitarian pay outcomes. That is, the construals of inputs are not mere abstract categories. Rather, because they provide justifications, or rationales, as to why egalitarian allocations make sense, they have the potential to influence receivers receptivity regardless of preexisting individual or contextual predispositions.

6 | PUTTING IT ALL TOGETHER: MEMBERS RECEPTIVITY TO EGALITARIAN PAY

We introduced novel conceptualisations of inputs. We then described egalitarian pay in philosophical terms and as existing in relative degrees, with examples of such. Next, we emphasised organisations important role in communicating and framing egalitarian pay practices. We now put these pieces together. Below we briefly expand upon our three construals of inputs, and conceive how each one – in concert with framed communication by organisations – influences how egalitarian pay is perceived and responded to by organisational members.

6.1 | Inputs not measureable

Within the input/outcome terminology of equity theory, employee inputs can theoretically be measurably diverse. But in practice, once performance goes beyond basic uniform measures (e.g., number of widgets produced) it is notoriously difficult to parse meaningful and objective differences (Adler et al., 2016). Yet institutional pressures, the pressure to conform to industry norms for legitimisation purposes, often influence organisations to evaluate and differentiate individual performance regardless (Adler et al., 2016).

The disutility of attempted measurement also emanates from the high degrees of interdependence within many contemporary organisations. Based on systems theory and the work of Deming and associates (e.g., Baker, 1999; Deming, 1982), some have argued that the system itself is the major determinant of performance, not the individual (e.g., Pfeffer, 2001). Organisations are a system of interwoven components that only together can accomplish the systems aim: “an orchestra is judged by listeners, not so much by illustrious players, but by the way they work together” (Deming, 1994, p. 96). An implication is that reward systems that single out individual accomplishments or some other subset of the systems overall performance may be inherently flawed. This idea is indirectly supported by research findings of undesirable outcomes when examining pay dispersion in interdependent work contexts (Bloom, 1999; Ferraro, Pfeffer, & Sutton, 2005; Hicks, 1963; Levine, 1991; Shaw, Gupta, & Delery, 2002).

While more recent work by Trevor, Reilly, and Gerhart (2012) suggests that pay dispersion in interdependent work settings is not necessarily detrimental to performance, Shaw (2014) review of this and other literature on pay dispersion wisely suggests that it is appropriate to “move beyond the notion of interdependence and investigate ... the key underlying issue: the *identifiability* of individual work inputs” [italics added]. Shaw specifically notes that while in some so-called interdependent work contexts the nature and degree of individual contributions can be assessed with reasonable accuracy (e.g.: team sports such as hockey – the very object of Trevor et al.’s study), in other interdependent contexts they cannot. Of course, Shaws concept of “identifiability” comports with the very conceptualisation of inputs we have broached here (inputs not susceptible to measurement).

Given these issues with measurement, the upshot here is that organisations might simply acknowledge (both to themselves as well as to members) that performance is to a degree imperfectly captured. Indeed, one cannot expect that organisational members are oblivious to the fact that there is sometimes an arbitrariness to performance measures. As with the classic Abilene paradox, employers and employees alike may not want this type of pretence at differentiation when objective performance differences are not justifiable, yet each plays the part thinking this is what the other wants. To counter this, we do not suggest organisations throw their hands up in the air and say “we have no idea who is contributing what” and then pay all the same. We are posing something more nuanced. Specifically, if organisations communicate when measures of individual performance are imperfect, by opening this metaphorical door they stand to gain access to a formidable lever of sensemaking for egalitarian pay outcomes. That is, we discern that the receptivity of organisational members to egalitarian pay will benefit if they are informed that one basis for making such distributions lies in organisations admission of their imperfect ability to identify differential inputs.

Consider how, in parallel research, an equality heuristic is adjudged fair under conditions of input uncertainty. Research demonstrates that when an optimal distribution is difficult to discern distributors are prone to rely on an equality distribution rule as a decision heuristic (Messick, 1993; Messick & Schell, 1992). Messick and colleagues suggest that one reason for this is because an equal distribution heuristic is simple, saving cognitive effort during decision processes, and because under conditions of uncertainty outcome equality is generally regarded as moral and just (Van den Bos & Lind, 2002). An equality heuristic functions similarly from receivers point of view, in that it is the preferred solution when information to evaluate optimality of outcomes is otherwise limited or ambiguous (Messick, 1993). The equality heuristic, or inequality aversion, in the context of distribution uncertainty shares psychological properties with risk aversion (Carlsson, Daruvala, & Johansson-Stenman, 2005; Chambers, 2012; Michaelson, 2015). In other words, an “equality” distribution holds salient economic instrumentality for receivers when relative standing is not known for it provides a key way for receivers to reduce uncertainty over their economic outcome.

This view is consistent with the previously described philosophical underpinnings of egalitarian distributions. That is, when those who are materially affected by an outcome distribution do not have knowledge in advance how they may personally fare under different outcome distribution rules, preferences logically veer towards a more egalitarian approach in order to assure that even the least preferred outcome is personally acceptable (Rawls, 2001; also see Freeman, 1994, pp. 415–416 for similar reasoning in regard to organisational stakeholders). In the present case, we equate the “veil” of uncertainty to uncertainty surrounding others inputs or the basis of measurement of these inputs.

6.2 | Inputs measurable but downplayed

As noted, here inputs are known, or sufficiently well-known, such that the organisation feels it can meaningfully discern differences, yet said inputs are intentionally ignored or downplayed. With an intentional downplaying or discounting of inputs it is necessary to present a reason or rationale for doing so. The typical justification in the literature is that inputs are downplayed in the interest of creating or maintaining a sense of community, teamwork, or an ethos of cooperation. Much of the past research pitting equality against the equity allocation rule falls into this category (e.g., Bamberger & Levi, 2009; Chen, 1995; Colquit & Jackson, 2006; Colquit; Leung & Park, 1986; Deutsch, 1985; Lerner, 1974, 1980; Leventhal, Michaels, & Sanford, 1972; Mannix, Northcraft & Neale, 1995; Meindl, 1989; Sinclair, 2003). This emphasis on community and commitment syncs with a core thread of the organisational culture literature in that culture can support a sense of cohesion, community, and commitment to common goals (Alvesson, 2016; Schein, 2010).

Consistent with a reinterpretation of equality allocations as either bounded or absolute (Simpson & Varma, 2006), we observe that this particular approach to egalitarian pay outcomes in our sensemaking framework is bounded by referent group membership. Salient referent groups include defined work teams or groups (as much of the early research on equality allocation rules specified) or groups defined by some other common and potentially simultaneous identifier such as job or location. Viewed in this way, egalitarian pay outcomes may occur among a subset of an organisation without specific attention to other organisational subsets or the organisation as a whole.

Recall that Rawls treatise described earlier as a philosophical foundation for egalitarian distributions fundamentally calls for acceptance of a social contract in which such social harmony is valued. To extend this to a more specific understanding of egalitarian pay within organisations, consider how such social contracts are activated and accepted at organisational referent-group levels. For in addition to explicit work groups, many organisations would implicitly appear to discount inputs to some degree across broader segments of their members (e.g., they have reward systems which while 'merit' based do not reward members in full proportion to their contributions). Moreover, organisations tend to do this *tacitly*, being unable to fully acknowledge to themselves and certainly not to members that they are doing such. However, to support sensemaking and, in turn, the potential for discounting of inputs in this context to turn into a notable strength, it is necessary to legitimate allocative practices that seem at odds with prevailing norms of proportionality. Companies may convey such rather directly, for example by making explicit statements as to why they are downplaying member input relative to their compensation schemes. Or they may do so indirectly, in terms of promoting in parallel with egalitarian pay practices the importance of common goals, community, culture, organisational citizenship, or cohesion.

Finally, consider two manners in which such justifications for egalitarian pay outcomes may operate relative to sensemaking. First, we suggest that organisations explicit use of egalitarian team or group-based pay serves as an implicit signal for member cooperation that is internalised by members. Empirical research has found that goals are implicitly defined and activated by the performance expectations that individuals associate with the task (e.g., Earley & Erez, 1991). Moreover, individuals are more likely to translate performance standards into personal goals when such standards are reinforced by the reward system (Bobko & Colella, 1994). Therefore, even if employees do not always prefer group over individual rewards they may still be inclined to adopt the goal of cooperation. Said another way, there is economic utility – i.e., a financial reward still at stake – for employees in adopting the implicit cooperation goal. An important caveat is cooperation from this perspective also hinges on employees perception of others doing the same (Schnake, 1991), the leaders ability to enforce such (Valentine, 2018), or a general expectation of reciprocity (Gintis, Bowles, Boyd, & Fehr, 2005).

Second, egalitarian pay outcomes within groups serve when inputs are known but downplayed also serves an implicit non-economic function. An egalitarian distribution and the processes surrounding it inherently informs group membership and standing (Blader & Tyler, 2005). We assert that in explicitly communicating the boundary of egalitarian pay outcomes, the pay condition itself defines group membership by way of whom it encompasses, and group standing is signalled by the relative differences in pay amounts or lack thereof. To the extent receivers value

membership in the group as an end in itself, rather than merely a means to a financial end, the information inherent in egalitarian pay outcomes of this nature will hold utility in relational terms for employees. This reasoning is consistent with classical theories of groups, including group value theory (Lind & Tyler, 1988) and social identity theory (Tajfel & Turner, 1986). Research has demonstrated that concern for group values, goals, and group member welfare supplant concern for individual goals and outcomes when group identity is enhanced (e.g., Robbins, Summers, Miller, & Hendrix, 2000; Utz & Sassenberg, 2002). Research shows that even within temporary groups not characterised by strong social identity, a quick form of situational solidarity around unity of purpose can occur, given conditions of interdependence (Valentine, 2018).

6.3 | Inputs existentially equal

The preceding ideas that inputs are not measureable, or measureable yet downplayed, are both rooted in the notion that variability of inputs exists. In contrast, the idea of inputs as existentially equal carries no such implications. Here all humans are fundamentally equal; one cannot parse relative value.

This existential conceptualisation of inputs is understood relative to conceptions of equality as propounded in Enlightenment philosophy. The belief that “all [people] are created equal” – that all enjoy a natural equality – is a central precept of post-Enlightenment culture. Such is the central thesis of Rousseau’s famous *Discourse on the Origin and Foundations of Inequality among Men* (Rousseau 1775/2010). It is the message conveyed by Thomas Jefferson in the U.S. Declaration of Independence: “We hold these truths to be self-evident, that all [people] are created equal; that they are endowed by their Creator with inherent and inalienable rights; that among these are life, liberty, and the pursuit of happiness” These are what John Locke (1689/2010) referred to as ‘natural rights’ (also named ‘moral rights’ or ‘unalienable rights’), that is, rights that are not contingent upon the any of the laws, customs, or beliefs held by a particular society or organisation. The seminal vision of Enlightenment philosophy was one of placing all individuals, for the first time in Western History, on the same footing as existentially equal beings.

In an organisational context, we are by no means implying that individuals must enjoy the exact same equalities they possess in the larger society. Rather, we simply suggest that, to the degree one endeavours to study egalitarian pay outcomes within an organisational context, that existential equality represents a very proper yet previously overlooked root conceptualisation. The idea here is simply that, in workplace contexts, individuals, by virtue of their existence (and by extension by virtue of their basic membership in the organisation), may likely perceive that they are privileged with certain underlying modes of treatment, and that as such their sensemaking process will likely be receptive to justifications which are framed relative to existential equality. If existential equality (of inputs) is a root conceptualisation within the larger society, why should we not expect to find the same values also mirrored within the minds of members, and consequently in the practices of organisations themselves?

Yet, within organisational discourse, if there exist appeals to existential equality at all, these appeals operate only at a tacit level, as implicit background assumptions undergirding some organisational practices. Yet – and as with the other two construals of inputs – we suggest that organisations stand to gain by using this as a more explicit strategic lever relative to their compensation practices, and the reasoning they provide to employees regarding said practices. Consider specific examples pertaining to this category, in which egalitarian pay outcomes are (either explicitly or implicitly) underpinned by adherence to value based beliefs regarding the treatment of others. For instance, Whole Foods lists “shared fate” as one its core values, operationalising this value in the form as an executive salary cap of no more than 19 times the average hourly wage. Or companies such as Reddit.com have established a policy to provide the same starting pay to comparable new hires to counteract gender pay disparities associated with the tendency for men to negotiate a better initial offer than women. Considering both genders to be equal is an implicit example of existential equality of inputs.

Similarly, several large U.S. based companies such as Gap, Inc. and Starbucks Corporation have recently increased their pay floor for the lowest paid workers as a way to address living wage needs, rather than focusing

exclusively on a strict performance-based distribution. Aetna, a Fortune 50 U.S. company, recently increased their pay floor to \$16.00 per hour, resulting in an average 11% pay increase for the segment of workers at the bottom of their wage scale. Aetna's CEO is quoted as saying: "It's not just about paying people, it's about the whole social compact" (Mathews & Francis, 2015). Indeed, it seems likely that considerations aligned with existential equality will become increasingly common in the workplace as more organisations pursue social responsibility, and as the line between business and social interests blurs.

Consider how such egalitarian pay practices, practices that appeal to a broadly defined social contract, are received by employees. We suggest explicit communication of an existential rationale in this context enhances receptivity through mechanisms of social identity and normative correctness. For instance, when leaders demonstrate a group-orientated motivation in their attitudes and behaviours, trust in the leader and social identity-based leadership endorsement is supported (Van Knippenberg & Hogg, 2003). Receptivity also increases when employees accept the broader value-based systems of belief on which the practice rests (see elaboration and support in Cropanzano, Goldman, and Folger, 2003). This is consistent with referent cognitions theory, which states that distributor justification – particularly in the form of conformance with accepted practice or higher-order moral principles – can mitigate the feelings of relative deprivation stemming from an otherwise disappointing personal outcome (Folger, 1986). Thus, acceptance of value-based distributive principles stems from a sense of obligation and moral correctness that is distinct from – and at times in opposition to – one's own direct benefit (Cropanzano, Goldman, & Folger, 2003).

This is not to say that an existentially equal rationale for egalitarian pay outcomes cannot also have a positive impact on firm performance. For in addition to a firm's physical, financial and human capitals, there is its social capital, a more intangible factor rooted in the quality of the organisation's relationships, and providing a difficult to imitate competitive advantage (Leana & Rousseau, 2000; Van Buren & Leana, 2000). Social capital generates "relational wealth" for an organisation by justifying individual employee commitment to the collective good and thus serving to manage collective action, among other benefits (Van Buren & Leana, 2000). Compensation policies based on group rather than individual performance are thought to be consistent with the development of organisational social capital (Leana & Van Buren, 1999; Melancon, Noble, & Noble, 2011). We further conjecture that social capital in its fuller form derives from the existential aspects of egalitarian pay practices where organisations are seen as doing the "right" thing above and beyond instrumental motives.

Buttressed from a complementary view, compensation practices that ignore value-based norms associated with egalitarian pay, such as concern over CEO-to-worker pay ratios, may have the effect of eroding organisational social capital. Findings generally demonstrate a positive relation between pay dispersion and group performance when pay differentials align with normatively accepted inputs. In this sense, normative typically refers to a performance-based construal of inputs (Trevor et al., 2012), yet we point to value-based beliefs as another way to construe alignment with norms. Further, even if certain benefited employees find the differentiation of inputs acceptable, group and organisational performance depends on broad employee acceptance (Bloom, 1999), without which there is the potential that the organisation incurs net costs to collective performance due to overly competitive behaviours (Lazear, 1989) and dissatisfied "losers" (Wade, O'Reilly, & Pollock, 2006).

7 | RESEARCH AGENDA AND DISCUSSION

In this paper, we offered a sensemaking perspective on how organisational members interpret egalitarian forms of pay. Specific focus was given to managerial (non)communication of diverse rationales for egalitarian pay practices. We integrated a wide range of findings and descriptive accounts to conceive a typology of rationales that inform the sensemaking process, as ultimately observed in employee receptivity and response to egalitarian pay practices. The result of our conceptual development is a prescriptive framework on organisational communication of egalitarian pay practices to its members. As with any good prescriptive framework, a future

research agenda and testable propositions are called for to test its validity. Recommended specific first steps follow.

7.1 | Research agenda

Our conceived typology describes egalitarian pay practices occurring under three distinct conditions: when employee inputs are not measurable, when differences in employee inputs are identifiable but intentionally downplayed, and when employee inputs are treated as existentially equal. Each is conceptually supported and buttressed by descriptive accounts and related extant findings. To empirically test the causality, we call for experimental and longitudinal research to examine each category. Similar to early lab studies on allocation rules, researchers may assign participants the role of allocator or manager and manipulate the contextual conditions to mirror categories of our posed typology – one category at a time to isolate the specific mechanisms at play. Research that captures a naturally occurring change over time in actual organisational settings is even more ideal, that subject to noise from simultaneous occurring categories of our typology. Also, when testing these propositions it is important to recall that egalitarian pay practices are not captured by simple degree of pay variance across individuals. By the philosophical interpretation extended herein, egalitarian pay practices carry with them *some degree* of belief in intentional equal treatment. Subject to these contingencies, the basic testable propositions for this part of our framework would be as follows.

Proposition 1. When a work context consists of employee inputs that are not measurable, managers will more frequently choose pay practices that are egalitarian relative to pay practices that are proportional from a given potential array of pay practices – specifically for the *bounded referent group* for which inputs are not measurable at a greater rate than for the *absolute organisation*.

Proposition 2. When a work context consists of employee inputs that are identifiable but intentionally downplayed for an organisational subgroup, managers will more frequently choose pay practices that are egalitarian relative to pay practices that are proportional from a given potential array of pay practices – specifically for the *bounded referent group* at a greater rate than for the *absolute organisation*.

Proposition 3. When a work context consists of employee inputs that are considered existentially equal, managers will more frequently choose pay practices that are egalitarian relative to pay practices that are proportional from a given potential array of pay practices – specifically for the *absolute organisation* at a greater rate than for any single *bounded referent group*.

An additional key contribution of our framework is its reasoning for the explicit communication of rationales that align with the typology above to inform sensemaking. We suggest such ‘sensegiving’ will positively relate to employee receptivity and response to egalitarian pay practices. To formalise propositions, we must further consider how researchers might operationalise the ‘receptivity’ and ‘response’ dependent variable. Shaw (2014) notes several outcomes of interest in his review of the pay dispersion literature that would provide an excellent starting point for testing of the present framework. These include performance related outcomes such as employee effort, turnover related outcomes such as quit rates, and attitude related outcomes such as commitment. Each of these outcomes would fit the following basic proposition we offer as a first step. Testing of the proposition could take place in a similar fashion as described above, with the emphasis now shifted to the employee (the receiver) rather than the manager (the allocator).

Proposition 4. Employee response to egalitarian pay practices is enhanced when the input related condition underlying the practice (our offered typology of conditions) is explicitly communicated versus not communicated.

A more subtle aspect of our framework, a black box of sorts, is the non-observable aspects of sensemaking that take place. Our conceptual development describes various mechanisms hidden within the sensemaking mind to include various aspects of uncertainty reduction and the social contract, consistent with Rawlsian foundations. We bring in organisational literature to parse these broad sensemaking related constructs more finely into concern over relational standing, adoption of implicit goals, concern for normative correctness social identity activation, to name the primary mechanisms. To begin to confirm these unseen sensemaking processes and go beyond simply inferring such from observable responses, we suggest future research take a qualitative approach. For instance, qualitative interview questions that probe these inner sensemaking processes might combine with the quantitative research agenda described above to form a rich mixed-methods study. Altogether, we believe our more nuanced framework will provide researchers with a didactic scaffolding that they can use to model and to empirically study how forms of egalitarian pay practices might be received by organisational members.

7.2 | Theoretical implications and limitations

The developed framework contributes to the broad, multi-disciplinary scholarship on organisational symbols, particularly the interactionist view that symbols are socially constructed and take on meaning in social interaction (see Schnackenberg et al., 2019). The symbols in our case reside in the typology of inputs underlying the prescribed communication of egalitarian pay practices. Each category, in symbolic terminology, carries a different ascribed meaning that is defined by the 'agents' and 'audiences' that use them. Further, the organisational communication that our framework calls for is consistent with the notion of symbolic management, which entails "managing symbols perceived to ascribe strategically consequential meanings to the structures, actions, and intentions of the organisation" (Schnackenberg et al., 2019, p. 25). Sensemaking, as a process that facilitates attributions and shared understanding, is considered one primary outcome of symbolic management.

Further, our approach adds to the relatively recent emphasis in the human resource (HR) literature regarding the crucial role of employee sensemaking and ensuing shared perceptions. The literature suggests that a strong 'situation' or climate, understood in terms of shared and consistent perceptions by members regarding the signals sent by HR practices, comprises a crucial mediating linkage as a precursor to overall HR system strength (Bowen & Ostroff, 2004; Fardale, Hope-Hailey, & Kelliher, 2011; Jiang, Hu, Liu, & Lepak, 2015; Meijerink, Bondarouk, & Lepak, 2015; Ostroff & Bowen, 2016; Shipton, Sanders, Atkinson, & Frenkel, 2016). Our approach is a compatible but novel perspective on this, in that it pivots on the vital importance of organisations clear and effective communication to members regarding just how the organisation is construing inputs, as a basis for their sensegiving rationale for egalitarian pay practices.

Despite the potential contribution of our framework, we also recognise its boundaries and limitations, particularly with regard to culture and societal level generalisability. First, we have not spoken directly to variations across cultures. We recognise the wide literature that places emphasis on conceptualising human resource processes through a cross-cultural lens (Fardale & Sanders, 2017; Morris et al., 2009). Specifically, evidence (e.g.: Bolino & Turnley, 2008; Chen, 1995; Chen, Meindl, & Hunt, 1997; Yang & Klaas, 2011) suggests that individuals in low power distance or in more collectivistic cultures tend to be more receptive to methods of remuneration rooted in what we have labelled as egalitarian. However, we suggest that in the broadest sense, sensemaking of egalitarian pay practices are still socially constructed and thus our topology itself is not precluded by cultural differences. Rather it seems culture may serve as an important moderator for the strength of our claims.

Second, though a potential strength of our approach is the extension of social justice foundations to the organisation, we did not so far attempt to generalise our framework to society at large. We offer some speculative perspective on this broader lens to encourage extension of our framework by future research. Viewed from a macro perspective, all organisations are social systems which must contend with, and ultimately balance, the conflicting forces of differentiation and integration. That is, all systems have centrifugal forces that tend to pull its members in

differentiated directions (Bejan, 2016). Yet such centrifugal forces must be counterbalanced by centripetal forces, forces that tend to integrate and to bind individual members together. Organisational culture, for example, has increasingly been understood as an important integrative mechanism. Our framework inherently suggests that the appropriate communication of egalitarian pay practices also comprises an important integrative mechanism. Rising societal concerns regarding income and wage inequalities show that sensemaking communication of egalitarian pay practices must extend well beyond intraorganisational walls and reach a wide range of stakeholders. This leaves important areas of extension of our framework open for scholars to pursue.

7.3 | Practical implications

Our framework construes ways in which egalitarian pay practices are effectively communicated in organisations to encourage employee receptivity and response. This is not to say that proportional or equity-based remuneration is not vital or highly effective in some cases, but we observe that it is not the only approach to pay practices actually in use within the organisations (Beer & Cannon, 2004). Further, our perspective also shows that equity and egalitarian pay practices within organisations are not mutually exclusive, and instead may coexist in various ways by subgroups and in degree. The main point, in practical terms, is that when equity-based pay practices give way to egalitarian based pay practices, either due to managerial preference or, as we contend is often the case, due to one of the noted boundaries described in our framework, the appropriate accompanying justificatory reasoning must be provided by the organisation in order to engage employee receptivity.

As a practical matter, we also note that our called for communication of rationales for egalitarian pay practices does not preclude singling out so-called free riders. In fact, it would be important for organisational practitioners to do so, such being consistent with recent findings on 'justice enforceability' as a moderator of group member cooperation (Valentine, 2018). And, it might be argued that explicit communication of egalitarian pay practices could induce undesirable sorting effects when it comes to hiring and employee retention. Sorting-effect prescriptions suggest that low performers will be more attracted to and more likely to remain within an egalitarian system, whereas high performers will be less so (Lazear, 1981). However, this standard interpretation of sorting effects relies on employees knowing that bona fide performance differences are discernable, but this would not be the case when the potential for accurately discerning performance contributions is ambiguous or are perceived as more alike than different through the sensemaking framing we describe.

In closing, and as noted by Lewin (1951), there is nothing so practical as a good theory. It is our hope that by contributing to theory on egalitarian pay practices, the conceptual framework presented herein and accompanying research agenda will serve future scholarship. Our framework along with such future research will improve how organisations and human resource professionals in general implement and communicate egalitarian pay practices to the ultimate benefit of employees.

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CONFLICT OF INTEREST

The authors have declared that there is no conflict of interest.

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