

# Compensation Complexity and Social Comparison

Bachelor of Science

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**Purpose/Motivation:** The increasing number of companies practicing pay transparency and more complicated reward packages challenge the conventional view of how individuals react to social comparison in a compensation context. The purpose of this paper is to integrate compensation complexity, as an increasingly important “new” variable, into a social comparison model with pay transparency as the starting point and figure out how complexity alters existing links and outcomes. Ultimately, I wanted to answer the question how individuals deal with the increasing complexity of their reward packages and evaluate them in the context of social comparison.

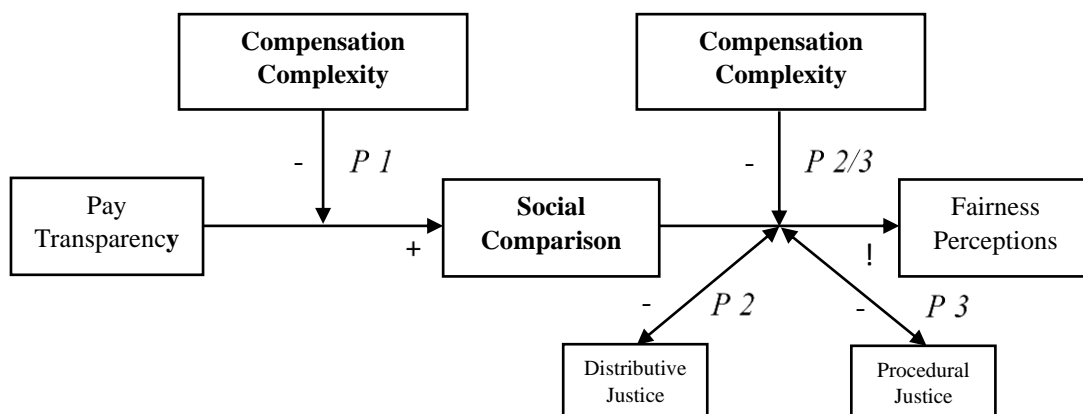
**Theories:** The underlying logic behind the theoretical framework proposed in this paper is the interrelation between pay transparency, social comparison, and perceived fairness. All together these three elements constitute a process with social comparison in the focus. The model is created around these three elements and the two links between them: Between pay transparency and social comparison, and between social comparison and fairness perceptions. In the first step it is assumed that there is a positive relation between pay transparency and social comparison considering that pay disclosure practices trigger more social comparison processes between individuals. In the second step information from the individual social comparison processes is used to evaluate the individual reward packages and finally form an opinion on the fairness of the outcomes and procedures. The final fairness evaluation is carried out via distributive and procedural justice perceptions. Both interact strongly with the link between social comparison and fairness perceptions. On the one hand, distributive and procedural justice evaluations are only possible with information gathered from social comparison processes and on the other hand, they are the decisive criteria for the final perception of fairness. The model is finally supplemented with another, crucial element: Compensation complexity. I assume that both links of the model are directly influenced by compensation complexity.

**Approach/Methodology:** After acquiring the necessary basic knowledge on the three main elements of my paper, pay transparency, social comparison, and fairness perceptions, I started to search for literature dealing with entanglements between the elements. This resulted in the rough sketch of my theoretical model. I added compensation complexity as a new variable

and worked out how it could influence the existing links in my model. The argumentation of possible influences of compensation complexity constituted the main part of my work. Therefore, I largely relied on existing models in which I tried to integrate the influence of compensation complexity in the best possible way.

**Findings:** My attempt to integrate compensation complexity into a social comparison framework resulted in the following theoretical model and three propositions displaying the influence of compensation complexity.

**Figure 1: The Theoretical Model**



P1: Complexity weakens the positive link between pay transparency and social comparison.

P2: Complexity leads to worse perceptions of distributive justice.

P3: Complexity leads to worse perceptions of procedural justice.

**Research Limitations:** Complexity is a difficult and multi-layered construct. This paper works with a rather easy and unidirectional definition of complexity in connection with compensation.

**Research Implications:** My paper uncovered that compensation complexity despite its increasing relevance has been overlooked in recent social comparison research. Future research is needed to find out how strong the proposed effects of compensation complexity are and how the complete fairness process is ultimately influenced.

**Practical Implications:** Considering the findings of this paper the current trend of increasingly complicated compensation is critically questioned. The suggested negative impact on perceived fairness must be reweighted against benefits of complexity to find out how meaningful complex compensation is for the individual employee and the company as whole.

**Contribution:** The present paper is a first attempt to integrate compensation complexity into a social comparison context. As far as I know there is no existing research or studies dealing with the exact interactions proposed in my model.

**Paper type:** Conceptual

**Further readings:**

For compensation complexity research:

Albuquerque, A., Carter, M. E., & Lynch, L. J. (2016). Complexity of CEO Compensation Packages. *Working paper*, pp. 1-52.

Murphy, K. J., & Sandino, T. (2018). Compensation Consultants and the Level, Composition and Complexity of CEO Pay. *Harvard Working Paper*.

For social comparison research:

Gartenberg, C., & Wulf, J. (2017). Pay Harmony? Social Comparison and Performance Compensation in Multi-Business Firms. *Organization Science*, pp. 39-55.

Lamertz, K. (2002). The Social Construction of Fairness: Social Influence and Sensemaking in Organizations. *Journal of Organizational Behavior*, pp. 19- 37.

Nickerson, J. A., & Zenger, T. R. (2008). Envy, Comparison Costs, and the Economic Theory of the Firm. *Strategic Management Journal*, pp. 1429- 1449.

Schneider, S. M., & Peter, V. (2017). Relative Standards and Distributive Justice: How Social Comparison Orientations Moderate the Link between Relative Earnings and Justice Perceptions. *Social Psychology Quarterly*, pp. 276–287.

