

Joanna M. MOCZYDŁOWSKA\*

## JUSTICE AS AN AXIOLOGICAL CRITERION IN THE EVALUATION OF THE COMPENSATION SYSTEM

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The article is conceptual and harmonizing in character. It is a voice in the discussion about the axiological foundations of the creation of compensation systems. It is based on the idea that justice is one of the most important characteristics of compensation, one which determines whether that compensation is positively assessed. Compensation that is seen to be fair is an indicator that an employer treats the worker honestly and considers him a partner which, in turn, acts as a strong motivational factor. The article contains the results of analyses of philosophical concepts of justice presented by Rawls and Nozick and indicates the implications of these theories in the practice of compensation management.

**Keywords:** justice, compensation, compensation management

### 1. INTRODUCTION

As aptly noted by Milton Friedman, the notion of justice is „(...) in reality so difficult to define that it may be impossible to precisely do so” (Friedman, 1994, 129). Regardless, for many centuries justice has been present in scientific papers and the work of prominent economists and those studying management sciences. It is an independent object of study as well as a criterion in the axiological assessment of behaviors, phenomena, states, processes or systems. The following article will treat justice as an important factor in the creation and evaluation of employee

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\* Faculty of Engineering Management, Białystok University of Technology.

compensation systems. This results from the conviction that compensation<sup>1</sup> can be analyzed not only within the economic but also within the axiological scope. Following the example of Herman (2015, 19-36) we accept axiology as a sub-discipline which straddles the area where theoretical and practical sciences meet. All value seen from this perspective becomes a basic criterion in the evaluation of attitudes, behaviors and activity of people. Axiology which has been defined in such a manner becomes an integral part of management philosophy because it expresses those values held by the management, their convictions, their approach to people and to themselves. Through formulating the question about the axiological rationale behind employees' compensation we are asking about the type of a system being used to fashion this extraordinarily important motivational factor, and, indirectly, also about the type of value system being communicated by the organization to its workers.

The evaluation of the effectiveness of an employee compensation system (Beck-Krala, 2012, 23-31) requires several different criteria. These include not only „hard” indicators, such as the ratio of results of work to the compensation fund, but also those which are considered „soft” (Moczyłowska, 2015, 9-12). These should encompass the possibility to hire and retain the best quality employees as well as the motivational power of compensation expressed as, for example, the level of worker satisfaction resulting from the adaptation of the system to their expectations. The article is based on the assumption that one of the main premises deciding whether the compensation system is perceived as attractive is its fairness, which in turn correlates closely with the system of values being promoted within the organization (Gardner, Van Dyne, Pierce, 2004, 307-320).

The article is conceptual and harmonizing in character. It is a voice in the discussion about the axiological foundations of the creation of compensation systems and the transparency of salaries. It aims at the systemization of the interdisciplinary scientific achievements concerning the category of just compensation and the creation of a theoretical plane for further empirical research.

## 2. HISTORY OF RESEARCH CONCERNING JUSTICE

In ancient times justice was the subject of numerous scientific discourses and mainly fell within the sphere of interest of philosophers. One of the earliest accepted definitions of justice is the one formulated by Ulpian who described it as a constant and perpetual wish to render to everyone his due (Plisecka, 2002, 131). For Socrates justice was a virtue: to know the meaning of „courage” or „justice” is to become courageous and just (Plato, 1982, 22-23). According to Aristotle justice is

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<sup>1</sup> The concept of *salary or payment* is not the same as the concept of *compensation* but for the purposes of this article they will be used interchangeably.

one of the greatest moral virtues. „Justice is the same as ethical perfection” (Aristotle, 1956, 162). Cicero treated justice (*iustitia*), along with fortitude, prudence and self-restraint, as the most important element of virtue, a spiritual disposition consistent both with rationality as well as the laws of nature. A unique feature of justice is that its observation benefits everyone. This shows its social character and its importance in maintaining bonds between people. „Justice exhibited through deeds” (*iustitia agendi*) described by Cicero has distinctive significance within the context of this article. For the above-mentioned philosopher justice befits rulers and civil servants managing public affairs. It demands that they maintain and preserve everyone within his rights, reward and grant goods to the good and restrain the bad, each in accordance to his service or offence.

The importance of justice has been stressed by Smith (1989). In his „The Theory of Moral Sentiments” he wrote: „Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it” (Smith, 1989, 127).

Within the history of economics justice is sometimes likened to equality but this way of understanding it leads to an obvious conflict with effectiveness. A work which is considered a classic in reflecting this dilemma is Arthur Okun's „Equality and Efficiency: The Big Tradeoff” (Wilkin, 1997, 33). Okun argues that the conflict between the principle of equality and the principle of economic effectiveness is unavoidable hence, through the use of those tools provided on the one hand by capitalism and on the other by democracy, societies are doomed to constantly „juggle” economic and humanistic values.

### **3. RAWLS' A THEORY OF JUSTICE AS A FOUNDATION OF EGALITARIANISM IN DEVISING COMPENSATION**

One of the best known definitions of justice is the one formulated by a Harvard University professor Rawls. In his work „A Theory of Justice” published in 1971 he writes: „Justice is the first virtue of social institutions, as truth is of systems of thought. A theory however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust” (Rawls, 1994, 13). He explains the essence of justice by invoking the notion of the „original position”. It is a kind of a „psychological experiment” (Przybyła, 2006, 15), a hypothetical state of inherent unawareness in which individuals are not conscious of some information such as their current and future place in society, their social status, the state of their wealth as well as their personal qualities, for example, their inherent talents. They also lack other knowledge, for instance, the prevailing political or economic situation of a society in which they live. According to Rawls the fulfillment of these

assumptions would lead to the introduction of rules which would be fair to everyone. In Rawls' opinion if an entity does not realize what its final position will be within its own self-created social order most likely it will not bestow privileges to any social group but rather concentrate on the creation of a system which is just and fair to everyone. A system which is just for all will be based on two fundamental principles. The first one states that every person should have an equal right to the widest system of basic, universal and at the same time generally accepted freedoms. The principle of freedom is absolute and cannot be discarded. In events of conflict, which may arise at various planes and concerns the freedoms afforded the individual, it becomes necessary to abandon some of those liberties but attempt to preserve a system which retains as many personal rights as possible (Acocella, 2002).

The second principle of justice, also defined as the principle of differentiation, states that all departures from the principle of equality are justified only if they benefit those individuals whose situation is the most dire. The interpretation of justice as impartiality can be expressed as: „All original social assets – freedom and opportunity, profit and wealth as well as that which constitutes the basis for one's own self-worth – should be apportioned equally unless the unequal distribution of any one or all of these assets benefits those who are the least privileged” (Rawls, 1994, 416).

In the opinion of J. Rawls workers' natural above average talents in no way are a part of their own achievement, therefore benefits which they will probably gain through using them are also undeserved. It could be assumed then that, in line with the justice theory being analyzed, a fair system of compensation should be as egalitarian as possible, and in cases when employees achieve higher earnings due to their individual „undeserved” predispositions, the redistribution of assets should occur at the level of state institutions. This course of thought is, however, a far reaching simplification. Rawls reviews the principles of justice directly concerning compensation: „to each according to his effort”, „to each according to his input”, „from each according to his talents”, „to each according to his needs”, „to each according to his training”, „to each according to his experience”, „to each according to the risk he takes”, „to each according to his contribution” and finally „to each equally”. The analysis of the rules listed above is crowned by the conclusion that none of them can be raised to the rank of being first or the most basic (Przybyła, 2006, 25). The notion being discussed discards the principle „to each according to his contribution” and accepts a certain favoring of individuals who are, for various reasons, weaker. On the other hand the disproportion in compensation should motivate people to make choices which from their point of view will promote their own goals (e.g. to choose a place of employment suitable to their inherent predispositions). Additionally, in relation to compensation systems, the principle of formal justice or the consistent and transparent application of rules

concerning compensation accepted by the organization is utilized. „Pure justice” has its source in the social acceptance of rules and is grounded in the understanding that those rules must be obeyed.

#### **4. COMPENSATION ELITISM IN THE THEORY OF JUSTICE DEVELOPED BY R. NOZICK**

Robert Nozick's interpretation of justice holds a significant position among modern theories of justice addressing fair employee compensation. It has been added to the annals of history as a theory of procedural justice. Nozick questions the right of a central authority (state or organizational) to grant individuals a fair share of assets and goods since the objects of that redistribution are resources which those same individuals earned through their own effort (Maroń, 2007/2008, 320). Granting, therefore, any entity (person or organization) the right to control all resources and decide how they should be divided is unjust. Nozick proposes the use of the term „justice in holdings” which contrary to distributive justice remains neutral. Applying this course of thinking to analyze the fairness of employee compensation it should be assumed that remuneration which is adequate to the individual employee's input into the results attained by the organization is just. „If a human being and not the community, nor state or God is a master unto himself then he is, at the same time, the owner of his talents and abilities, hence also of those assets created as a result of those talents and abilities. To cause someone (e.g. a person without those abilities) to become a beneficiary of other people's abilities objectifies the person with that ability in the name of the paternalistically understood good of the person not endowed with those abilities” (Johnson [www.missouri.edu](http://www.missouri.edu)). Despite the fact that the differentiation of human talents and abilities is arbitrary (since the disproportion of those abilities does not depend on those individuals), this in no way depreciates the rights of those employees who are exceptionally gifted to significantly higher earnings or to a greater share of other benefits included within the system of compensation.

Acceptance of significant disproportion in compensation based on the individual value of an employee to an organization is reflected in the idea of *superkeepers* (Schuster, Zingheim 2004, 38-41). Superkeepers are those workers who, in the understanding of a given organization, possess and can effectively make use of key skills. Their importance is especially apparent in those enterprises which are, for various reasons, going through a crisis. Acknowledging the validity of Nozick's theory of justice provides a base for the acceptance of a thesis that, paradoxically, a financial crisis justifies elitism in compensating employees. The essence of this manner of compensation can be stated as: „Since it is impossible to pay everyone well then, for some time, those on whom depends the most will be well paid” (Oleksyn 2006, 249), meaning those managers and specialists whose abilities will

facilitate the most rapid emergence out of the crisis. The overall low level of compensation most often resulting from the difficulties the organization is going through does not mean that there may not be significant disparity in salaries. On the contrary, in these types of situations it is insisted that compensation based motivational factors should become concentrated on the best, most effective employees. Of course the unequivocal determination which workers are more and which less valuable, as well as being able to choose those whom the company could let go without great loss and those who should be retained at all cost is a very difficult task.

In order for a compensation system concentrated on individual motivation of those employees who are considered to be the most valuable to be just requires the application of methods facilitating the determination which workers' abilities are the most desirable in the context of the company's strategic goals. This creates a need for the implementation of the right methods of assessment. This type of system becomes a part of the overall business strategy and not only the strategy of employee compensation. It requires the selective pursuit of talent and prior to that a determination who and upon what criteria will be considered an „exceptional employee”. A task which then becomes crucial for managers is skillful communication to employees which skills are considered to be the most valuable and what they can do to increase their worth in the eyes of the company and gain the status of a „super employee”.

Within this context the principle of transparency in compensation should also be regarded as very important. It seems reasonable to believe that the most innovative and engaged workers will choose to stay in an organization where they are not only well paid but also convinced that the compensation system is an element of treating the employees fairly and as partners. This also means that they are granted the ability to compare their results and the rewards they receive as a consequence of those results with the results and remuneration granted to other members of the organization. As has been aptly noted by Brzeziński (2015, 24) „the more we try to hide this knowledge the more ‘efficiently’ we lose our best workers who very often perceive trust to be a part of their compensation”.

## **5. ADAMS EQUITY THEORY**

The motivational theory which most relevantly relates to the category of justice is Adams' equity theory (also called the theory of inequity or the theory of just rewards). In presenting the process of building motivation, the author of this idea draws attention to the stages through which it progresses. First the employees measure the effort they have put forth and its subsequent results. Next they compare those calculated values with those attained by other workers. If the outcome of

this comparison turns out to be balanced, then this situation is seen as just or fair. If, on the other hand, it is not, then there is a feeling of injustice or a state in which compensation (reward) is either too large or too small. In order to perform these comparisons, the employee first has to establish some points to which he can refer. Adams defines three categories into which these points of reference fall:

1. *Others* or all people employed in similar positions within the same organization or people who are a part of a circle of acquaintances or friends. Compensation of these people is compared to the rewards gained for our own work.
2. *The System* – concerns the system of compensation within the entire organization. It covers formal regulations and precedents on the basis of which compensation is determined.
3. *Ourselves* or the ratio of effort to the results of our work. The employee subjectively views this aspect through the prism of his own professional experience and responsibilities toward his family.

Gaining a sense of having been treated unjustly always causes psychological discomfort, which people usually try to minimize through the use of one of the following mechanisms:

- changing the amount of effort: to restore balance between effort and the results of work an employee can reduce his engagement;
- changing the worth of the results: if the results are judged quantitatively the employee can, for example, increase the number of produced items at the expense of their quality;
- changing the way the employee perceives himself: the employee may start believing that the results of his work are not as good as he initially thought them to be;
- change in the way the employee perceives others: the employee may start believing that the results achieved by his co-workers are much better than he initially thought;
- changing the group used as a reference: the employee may start comparing himself to different people than before so that he regains a sense of justice in how he is compensated;
- the employee may resign from his position (Terpstra, Honoree, 2005, 51-58).

This theory assumes that the perceived injustice is accompanied by a state of tension. It has a motivating effect on the employee which makes him want to reduce the level of injustice. J.S. Adams proposes four main theses connected with unjust compensation:

1. When compensated for time worked those employees who are overpaid will be more efficient than those who are paid fairly.
2. When compensated for the amount of goods produced those employees who are overpaid will produce fewer units but of a higher quality than those who are paid fairly. People who are compensated on a per piece basis will increase their effort to achieve a state of justice. These activities may include improving quality or increasing the number of units produced. Increased production only intensifies the level of injustice since every additional unit produced will increase

compensation. Employee effort will more likely be directed at achieving higher quality than on increasing the number of units.

3. When compensated for time at work those employees who in their opinion receive a wage that is too low will produce less or will reduce the quality of the units being produced (meaning that their effort will be reduced causing lower efficiency or quality reduction in comparison to employees who are fairly compensated for their work).
4. When compensated on the basis of the amount of units produced those employees who are paid too little will produce a greater number of lower quality pieces in comparison with those workers who are fairly paid (per piece workers can bring about a state of justice since achieving a greater amount of production at the expense of quality will cause an increase in rewards at a lack of or very small increase of effort).

This theory reinforces the belief that employee motivation is influenced significantly by relative and absolute values of established compensation. If employees consider their remuneration as unjust they start doing things which have as their aim the improvement of this situation. This could be expressed in increased or decreased efficiency, improved or diminished quality of work, elevated absenteeism or even through resignation (Moczyłowska, 2010, 130-132).

Comparisons performed by employees have fundamental significance within the theory of justice. Most often the worker compares his effort and benefits which are the result of that effort to those granted to other people. Adams' theory does not explain the types of criteria used by the employee in choosing his point of reference. It can, however, be assumed that both the selection of that point of reference as well as the assessment of his effort and benefits are very subjective. This means that the employee may be mistaken in his estimations of the expenditures and benefits of the person or group of people to whom he compares himself. Analytical processes concerning the assessment of the ratio *expenditures* → *benefits* to self and *expenditures* → *benefits* of the point of reference result in the feeling of being treated justly as well as to being undervalued or overvalued:

$$\frac{\text{Employee's benefits (Opr)} > \text{Point of reference benefits (Opo)}}{\text{Employee's expenditures (Ipr)} < \text{Point of reference expenditures}}$$

The state of justice does not motivate changes either on the side of the expenditures or on the side of benefits. The real motivational power, one which initiates change, is the state of injustice. The longer it lasts and the stronger it is felt the greater the employee's determination to overcome it. It is, however, worth stating that a worker reacts much more to being undervalued or overvalued.



## 6. DISPROPORTION IN COMPENSATION AND ITS EFFECTIVENESS

Within the context of the problem addressed by this article, it is justifiable to ask about the way disproportions in compensation influence the perception of their fairness and what is the correlation between disparity in compensation and the effects achieved by the organization. Research results dealing with this subject are not clear. On the one hand we receive reports which show that a lack in variation of compensation produces positive consequences. This pattern has been observed, among other examples, in the study concerning the relationship between variation in the compensation of managers and a company's value. Siegel and Hambrick (2005, 259-274) have proven that the greater the disproportion in the salaries of top rung managers, the smaller the market value of the company. A similar conclusion was drawn by Bloom (1999, 42-45) whose study concerned sport teams or organizations where cooperation is the key to success. In football the relation that the smaller the variations in compensation the greater the number of wins has been observed. It must be, however, clearly stated that in other sport disciplines, for example ice hockey or basketball, this has not been true. Players who contributed more to the success of the team expected significantly larger salaries. On the basis of the above, it can be concluded that the axiological category having the greatest importance in the assessment of the amount of compensation is not equality but justice. In those companies where everyone works equally hard and has similar input into the success of an organization equal compensation is considered fair, while in those companies where the input of individual members of the team to success clearly differs then variations in compensation should be considered as fair.

Of course the level of that variation is a subject which remains open to discussion. Interesting data on this matter is provided by the extensive research of Kiatpongsan and Norton (2014, 587-593). On the basis of a study encompassing an impressive number of respondents, exceeding 55,000 from 40 countries, they proved that, first, people understate the estimated difference between the compensation of managers and unskilled workers and, second, they consider as fair a smaller disproportion in compensation than the one which is the result of their own understated estimates. For example, in the USA the actual ratio between the compensation of highest level managers and unskilled workers was 354:1, that estimated by respondents was 30:1, while the one believed to be justified and just amounted to only 7:1.

Research results obtained by Kiatpongsan and Norton show also that the assessment of justice in the disproportion of compensation is culturally dependent. For example, in Denmark respondents decided that the proportion 2:1 is fair while in Taiwan this ratio is 20:1. It can, therefore, be assumed that in countries whose culture is characterized by greater distance toward authority employees consider greater differentiation in compensation as justified.

## 7. CONCLUSION

Compensation is one of the factors which strongly influence employee motivation. One of the key characteristics of compensation, one which determines its positive assessment by employees, is justice or fairness. It is the result of the belief that the level of compensation is an element of a psychological contract entered into with the employer according to which compensation is an indicator of being treated justly and as a partner. The epistemological analysis presented within this article shows that although the problem of compensation justice has, for decades, been addressed by management science theory it is still an open subject. There are no studies, for example, concerning the relationship between the subjective assessment of the fairness of compensation being received and the self-assessment of the level of motivation to work. From the cognitive point of view, the search for the answer whether the perception of being justly compensated correlates with such variables as age, sex, job experience and the position held by the employee within the organization. What activities (conscious or intuitive) are initiated by management to increase the feeling of being fairly compensated?

Making systematic employee attitude surveys about their opinion whether their salary is equal and what factors affect this opinion is significant from the viewpoint of management practice. Counting the axiological basis of salary as justice or integrity has serious justification in case when on the Polish labor market there are not enough employees in many occupational fields. It can contribute to brand building of an organization as an employer, while maintaining the principle of salary efficiency.

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**SPRAWIEDLIWOŚĆ JAKO AKSJOLOGICZNE KRYTERIUM OCENY  
SYSTEMU WYNAGRADZANIA****Streszczenie**

Artykuł ma charakter koncepcyjny i syntetyzujący. Stanowi głos w dyskusji nad aksjologicznymi fundamentami kształtowania systemów wynagrodzeń. Opiera się na założeniu, że jedną z najważniejszych cech wynagrodzenia decydujących o pozytywnej ocenie dokonanej przez pracowników jest sprawiedliwość. Wynagrodzenie oceniane jako sprawiedliwe stanowi wskaźnik uczciwego i partnerskiego traktowania przez pracodawcę i ma silną moc motywującą. Artykuł zawiera wyniki analizy filozoficznych koncepcji sprawiedliwości J. Rawlsa oraz R. Nozicka oraz wskazuje implikacje tych teorii dla praktyki zarządzania wynagrodzeniami.

**Słowa kluczowe:** sprawiedliwość, wynagrodzenia, zarządzanie wynagrodzeniami