GREED, A POSSIBLE EXPLANATION FOR THE INDIVIDUAL'S RESPONSE TO OVERPAYMENT?

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ABSTRACT

"Greed" is the often heard response to information that describes the high level of compensation received by some executives. While cries of "Greed!" may be emotionally satisfying, alternative explanations for the high level of compensation can be provided by experts in several fields of study. For instance, economist may explain the level of compensation as the result of supply and demand and compensation managers can explain the pay level as the consistent with the industrial average. It is necessary to recognize, however, that some of these explanations (e.g., industrial average) reflect the summation of all individual executive compensation contracts and that the demand for higher pay in each contract is initiated by the individual executive. Consequently, it is important to ask whether the individual's request for higher pay is based on greed. This is especially true if the employee is considered to be overpaid. The present paper will attempt to address the question of whether greed may be an explanation for the overpaid employee's pay demands.

INTRODUCTION

Today, pointed and severe questions and criticism are often heard as part of discussions of executive pay. However, this is not a new issue. Frydman [9] suggests that early in the 20th century secrecy surrounding executive pay prevented such attention. As a result, it seems that awareness of excessive executive pay began to emerge when information about executive compensation became public as a result of governmental management of the railroads during WWI.

Almost 100 years later, executive compensation remains the topic of many stories in today's newspapers and television and radio broadcasts. Because many of these stories stress the difference between the pay received by the average employee and executive, they appear to be designed to stimulate an emotional response. While reports in academic journals point to these same pay differences, the focus of most of these articles is to investigate how and why these differences occur.

One justification for increased executive pay is based on the assumption that increased incentives in the form of bonus and stock options are necessary to motivate the executive. Such incentives have been popular since the early 1990s and appear to be based on the premise that executives must be offered such incentives in order to increase stockholder wealth (e.g., [13]; [14]). It is also thought [23] that executive pay is excessive because there is little confidence that the board of directors can truly engage in an arm's length contract negotiation and, as a result, many contracts fail to produce the desired increase in stockholder wealth [1].

It is, however, suggested that executives are not overpaid because their pay simply reflects supply and demand in the marketplace [15]. Others, however, posit that not only are executives overpaid, but the cause for the high pay level is the increased involvement of compensation consultants [2]. Consistent with this position, it is argued that organizational governance is too weak, which results in unrealistic compensation contracts [23]. Often these disagreements appear to take on a personal tone [23], but the lack of agreement might be best explained by the lack of data or inaccurate and incomplete data that prevents the development of a generally accepted theory that explains the observed increases in executive compensation [9].

Contracts are with Individuals

The above discussion describes a continuing disagreement as to the cause of increased executive compensation. Regardless of the point of view (e.g. market forces, weak governance, compensation consultants, etc.), the one common aspect is that each is ultimately based on single compensation contracts and the cumulative effect of all single contracts. To better understand executive compensation, it is necessary to understand the basis for the executive’s demand for pay.

According to Shleifer [19], searches for executives occur in an efficient market, but the competitive arena for executives, as measured by increased stockholder wealth, is inefficient. As a result, stockholders and boards of directors are motivated to hire and retain executives who appear able to manipulate these market inefficiencies. Under these circumstances, it is reasonable to assume that the board has no clear understanding of the basis for the success of such manipulations; consequently, an executive has the potential to demand compensation contracts that simply reflects his or her self-interest.

It is thought that one dimension of self-interest is greed [21] and that greed may be a function of the fear of loss [18]. Greed as it is associated with self-interest both provides a mechanism for the definition of self and operates to mitigate loss by obtaining objects that may be used by others to satisfy their greed. This behavior appears consistent with reactive egoism or self-serving behavior to counter the supposed self-serving behavior of others [7]. As a result, self can be validated by the acquisition of material outcomes desired by others. Such validation, however, requires the continuous acquisition of increasingly valuable material outcomes, but does not appear to result in satisfaction [18].

To begin a development of an understanding of overpayment and the possibility that greed may be a possible explanation, it is necessary to address the question raised in the above discussion. That is, “Why, with increasing levels of compensation, is there little or no increases in satisfaction, but there are still demands for even more compensation?” The following discussion will attempt to address these issues, which will serve as the basis for investigating the overpayment question.

Increased Pay, Constant Satisfaction

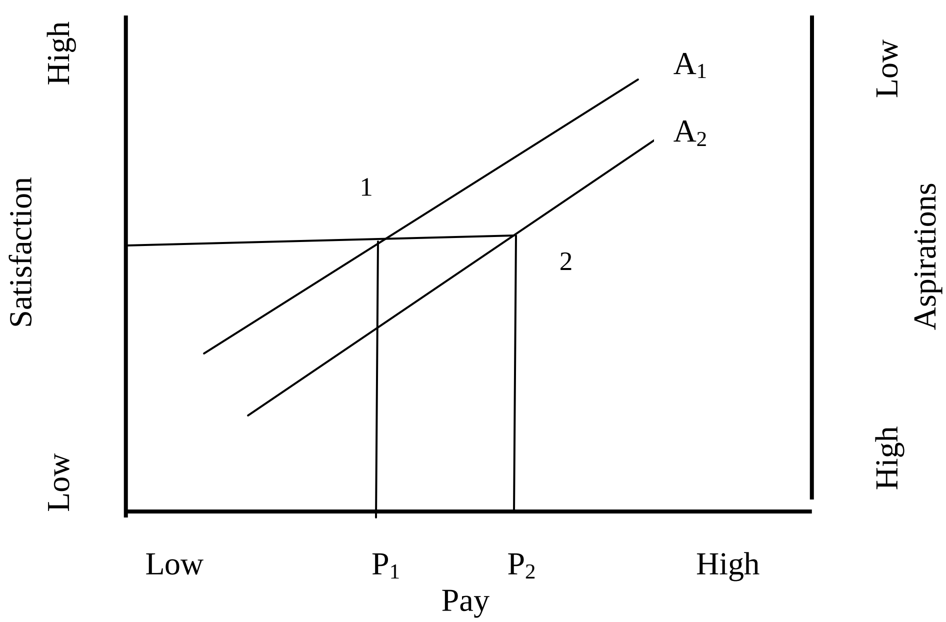
Easterlin [6] provides a possible explanation for why increased income is not accompanied by increased satisfaction. Easterlin [6] suggests an individual's immediate satisfaction reflects the decision utility related to the selection of one, among a number of competing, alternatives. However, he posits that experienced utility is of more importance in the determination of satisfaction because it reflects the positive or negative consequences of the all previously selected alternatives.

Since experienced utility serves as the cumulative representation of all previous decision outcomes, it serves as the foundation of the theory. However, experienced utility is subject to the influence of any number of time-based events and attitudes, especially material aspirations (hereafter: aspirations). In essence, Easterlin [6] posits that increased positive experienced utility will be accompanied by increased levels of aspirations.

The proposed relation among pay, satisfaction, and aspirations are shown in Figure 1. Basic to Easterlin's [6] theory is that as pay increases from P_1 to P_2, Aspirations will reflect a similar increase (A_1 to A_2) that holds relatively constant (intercept point 1 compared to 2) the level of satisfaction. Consequently, across time, the hypothesized result in a relatively constant level of satisfaction.

Figure 1

Pay, Pay Satisfaction, and Aspirations*



*Adapted from Easterlin, R. A. (2001). Income and happiness: Towards a unified theory. The Economic Journal 111(July), 473.

Easterlin's [6] theory is supported by his analysis of national survey data relating pay and age with happiness. Based on cohort analysis, pay and age reflect a positive relation; however, happiness reflects a relatively constant value. The relative constant value exhibited by the measurement of happiness is, according to Easterlin [6], the result of increased aspirations. Easterlin's [6] theory and these reported results appear to be consistent with the above discussion of greed suggesting that the acquisition of additional valuable outcomes contributed little to the individual's satisfaction.

Regardless, I Want More

If, as noted above, the acquisition of additional valuable outcomes may not be associated with increased satisfaction, why do individuals continue to seek or demand increased outcomes? As noted earlier, such demands may reflect the individual's efforts to satisfy some dimension of self-interest [21] or in the extreme to attain some idealized self-image [22]. A number of explanations might be offered for the emergence of greed (e.g., [8]): people may be inherently selfish, the desire to continue their genes; focus on personal gratification; lack of social interest; etc.; and Wachtel's [21] infants' fantasies, weak self-esteem, etc.). However, at some level, there seems to be agreement that greed is associated with the fear of loss and that greed cannot be satisfied (e.g., [3]; [7]; [18]; [21]).

Easterlin's [6] position that aspirations suppress the ability of positive outcomes to increase an individual's satisfaction suggest that aspirations reflect greed or at least includes a greed component. Levine [18] notes that the concept of desire (aspiration) is a component of human nature and, in general, will lead to some higher level of satisfaction. However, if desire does not lead to increased satisfaction, it can be assumed that desire has been replaced by greed, which is focused on avoiding frustration or the fear of loss. As a result, in the present study, it is reasonable to assume that aspirations, as defined by Easterlin [6], can be viewed as a measure of greed.

THE PRESENT STUDY

It is reasonable to conclude that in today's consumer environment most of our needs, desires, or wants are simply converted to the common denominator: "dollar." [21]. The acquisition of "dollars" for most individuals is through the pay they receive and it might be concluded that the individual's satisfaction with pay would be simply based on the number of dollars received.

It is necessary to recognize, however, that the pay an individual receives does not provide an adequate basis for the evaluation of pay satisfaction. In essence, a more robust explanation requires the inclusion of a number of possible comparisons (e.g., alternative jobs, peers' pay, amount of work done, etc.) [17]. These several comparison allow for a determination of pay equity, which, regardless of how measured, is considered as a significant predictor of pay satisfaction [4]; [11]; [16]; [5]; [20]; [24].

Jaques' [12] compensation theory provides a direct method of establishing pay equity based on the demands of the assigned work, the employee's capacity to do the assigned work, and the pay received. Multiple comparisons among the three variables provide evaluations that provide a complete description of the various situations faced by the employee. Only two situations are to be considered in the present paper; therefore, a complete description of the theory will not be offered here.

Jaques' Equity Theory--The Basics

Jaques [12] uses three variables to determine equity. The variables are: time-span of discretion; time-span of capacity; and pay. Time-span of discretion (W) is described as "…the time period during which marginally substandard discretion could be exercised…" (p. 99). Time-span of capacity (C) is defined as "The capacity of individuals to carry responsibility by exercising discretion on their own account..." [12, pp. 186-187]. Pay (P) might seem to be the simplest of the three variables because it is defined as all direct monetary payments plus fringe benefits and subsidies [12, p. 125].

The Pay variable, however, is more complex because it represents a comparison of the individual's pay to a pay norm. This pay norm is "…an unrecognized system of norms of fair payment for any given level of work, unconscious knowledge of these norms being shared among the population engaged in employment work" [12, p. 124]. As a result it is necessary to determine if the received pay is equal, less than, or more than the pay norm. This comparison to the pay norm can be represented as $P_{=PN}$ (Pay is equal to the Pay Norm). By using =, <, and > symbols, the three comparisons can, respectively, be described as equal to, less than, or greater than the pay norm.

Presentation of the equity model is made easier by the using letters to represent the three variables as follows [12]: W-Work (Time-span Discretion); C-Capacity (Time-span Capacity); and P-Pay (all aspects of compensation). Of the possible P:W:C relations created by the symbols =, <, and > only one comparison is defined as equity (e.g., P=W=C). These representation must be expanded, however, to include the Pay:Pay Norm comparison, which is limited in this paper to $P_{=PN}$ (at the pay norm) and $P_{>PN}$ (above the pay norm)..

For the purpose of this paper it will be accepted that an employee is assigned work (W) that is consistent with his/her capacity (C), that is W=C. As a result the employee will make an equity evaluation when the pay comparison is within ±3% [12] of the pay norm, which is illustrated by: $P_{\pm.03PN}$=W=C. It is thought that an equity evaluation is associated with the highest level of satisfaction and performance [12]. However, both pay below the pay norm (underpayment) and above the pay norm (overpayment) result in attitudes and behaviors inconsistent with optimal organizational performance [12]. Of special interest here is overpayment ($P_{>PN}$=W=C).

Feelings of overpayment result when the pay comparison is 5% above the pay norm ($P_{.05>PN}$=W=C) and causes the employee to think that his pay is better than that of other similarly qualified and assigned employees. If the pay comparison is 10% or more than the pay norm ($P_{.10>PN}$=W=C), the employee, with no explanation for the overpayment, begins to worry that the overpayment may not continue. As a result the employee will not include the overpayment is his/her consumption plans, but will exhibit relatively high levels of satisfaction [12].

Consistent with the above discussion of greed, Jaques [12] suggests that a continued overpayment of 10% or more has the potential to stimulate "…greed and avarice…" (p. 133). Importantly, he notes that the overpaid employee may seek additional compensation that increases the level of overpayment.

The above discussion serves as the basis for the research questions (RQ) noted below. An investigation of these RQs may provide information useful in understanding the relation between overpayment, satisfaction, and aspirations and by extension, greed. The first RQ investigates Jaques' [12] position that the equitably paid employee will exhibit the highest level of satisfaction, but that the overpaid employee will also exhibit high levels of satisfaction.

> RQ_1: Will both the equitably paid and overpaid employee exhibit high levels of satisfaction and will the satisfaction level of the equitably paid employee exceed that of the overpaid employee?

Easterlin [6] suggest that aspirations change across time and are influenced by any number events and situational variables. Thus:

> RQ_2: Is the employee's pay condition (overpayment or equitable payment) a situational variable that influences the employee's aspiration level?

And:

> RQ_3: If the equitably paid and overpaid employees are contemplating a promotion, will their aspirations for pay be equal to that established in RQ_2 and will the aspirations of the two employees be similar?

METHOD

Data were collected by the use of a questionnaire that included two situational descriptions (overpaid and equitably paid) and three identical questions for each situation are shown in Appendix A and Appendix B. The situational descriptions were written to provide sufficient information for respondents' to conclude that Work and Capacity are equal (W=C) for the two described employees. Information was include that while W=C, one employee was overpaid by 10% resulting in a $P_{.10>PN}$=W=C situation, while the second was at equity, $P_{=PN}$=W=C. This level of overpayment was selected because, as noted earlier, Jaques [12] suggests that this level of overpayment is sufficient to stimulate greed-based behaviors and attitudes.

Respondents were first asked to evaluate the satisfaction level of the overpaid employee and, later, to rate the satisfaction of the equitably paid employee. Respondents were then asked to record their opinion of each employee's pay aspirations in their present position. Finally, an evaluation of the employee's pay aspirations based on the hope for future promotion was requested.

As part of a larger study, these questionnaires were distributed in a MBA class at a regional state-supported university. The procedure produced 104 usable questionnaires, but for the purpose of this study the 17 respondents who reported no work experience were exclude. The analysis sample, *n*=87, consists of 38 females and 49 males. The average age for the respondents is 26.7 years and the average work experience is 5.75 years. No gender, age, or work experience effects ($p \leq .05$) were observed for the six questions (i.e., two Satisfaction questions; two Aspiration in present position questions; and two Aspiration with promotion questions). The means and standard deviations for the six questions are shown in Table 1.

Table 1

Means and Standard Deviations of Satisfaction and Aspirations Questions under Two Pay Conditions

	Condition			
	Equity		Overpayment	
	$P_{=PN}$=W=C		$P_{.10>PN}$ =W=C	
Measure	$\bar{X}$	*S.D.*	$\bar{X}$	*S.D.*
Satisfaction	.35	1.79	3.05	1.76
Pay Aspirations (Present Position)	4.89	6.26	8.51	7.59
Pay Aspirations (With Promotion)	7.47	8.17	11.26	8.22

RESULTS AND DISCUSSION

Data necessary to investigate RQ_1 show that respondents' evaluations of the overpaid employee's satisfaction level ($\bar{X}$=3.05, Table 1 and Appendix B) is greater than that of the equitably paid employee ($\bar{X}$=.35, Table 1 and Appendix A). The results of paired t-test, Table 2, show the two satisfaction values are significantly ($p \leq .000$) different.

The high satisfaction level for the overpaid employee is consistent with Jaques' theory [12], but the neutral satisfaction level reported for the equitably paid employee is not. However, since the satisfaction values reported for the equitably paid employee are positive, the results are not sufficient to raise strong questions regarding the explanatory value of Jaques' theory [12].

Table 2

Paired-t Comparisons for Overpaid and Equitably Paid Employees*[1]

Measure	*d.f.*	*t*-ratio	*p*
Satisfaction	86	10.80	.000
Aspirations for present pay	86	3.97	.000
Aspirations for pay accompanying a promotion	86	4.41	.000

*[1]Values from Table 1.

The response to RQ_2 is based on respondents' determination that the overpaid employee would exhibit pay aspirations that are much greater ($\bar{X}$=8.51%) than that of fellow workers (Table 1 and Appendix B). This is considerably more than the aspirations, $\bar{X}$=4.89% more than that of fellow workers, for the equitably paid employee (Table 1 and Appendix A). A comparison of mean values (Table 2) shows the aspiration values are significantly different ($p\leq$ .000). These results provide support for the inclusion of pay condition (i.e., overpayment and equitable payment) as a situational variable that influences aspirations [6]. These results are also consistent with Jaques' [12] position that the overpaid employee may demand even higher pay, which may reflect the emergence of greed attitudes and behavior.

It is necessary also to note that the equitably paid employee's aspirations ($\bar{X}$=4.89%) were for more than their fellow workers. Since Jaques [12] suggests that everyone will seek equitable payment, this may reflect desire [18] more than greed. That is, based on Levine's [18] distinction between desire and greed, it can be suggested that the equitably paid employee's aspirations are consistent with the concept of desire. As a result, the difference, 3.62, between the mean of the two aspiration values (Overpaid: $\bar{X}$=8.51%; Equitably Paid: $\bar{X}$=4.89%) can be considered as measure of greed.

Similar results can be observed in response to RQ_3. That is, respondents evaluated the overpaid paid employee's pay aspirations for pay coupled with a promotion ($\bar{X}$=11.26, Table 1 and Appendix B) as being much greater than that reported for the equitably paid employee ($\bar{X}$=7.47, Table 1 and Appendix A). As shown in Table 2, these values are significantly different ($p\leq$ .000). These results appear to support promotion as a situational variable as it relates to aspirations [6] and supports the above information regarding the possible emergence of greed [12].

Analyses directed at responding to the RQ_2 and RQ_3 may not provide a complete picture of the effects of pay condition and promotion on aspirations. That is, while the absolute values shown in Table 1 are different; is the range of the aspiration levels for the overpaid and equitably paid employee also different?

The design of this study is not sufficient for robust data analyses, but additional basic analyses may provide useful information regarding the influence of a promotion on aspirations. Based on data in Table 1, paired-t tests (Table 3) were used to determine if the aspirations values at present pay and with promotion for the two employees were different. The results show that these values are significantly different. However, a comparison of the range of the differences between aspirations at present pay and aspirations with promotion (Overpaid: $\bar{X}$=3.62; Equitably: $\bar{X}$=3.79) shows no significant difference. Thus, while the magnitude of the aspiration values for the overpaid and equitably paid employee are significant different, a promotion appears to have a constant effect on the aspirations of the overpaid and equitably paid employee. It is reasonable to suggest, therefore, that promotion may not be a situational variable that influence aspirations.

Table 3

Paired-t Comparisons for Aspirations and Aspirations Differences for Overpaid and Equitably Paid Employees*[1]

Comparison	*d.f.*	t-ratio	*p*
Overpaid: Aspiration_1 to Aspiration_2 *[2]	86	2.991	.004
Equitable: Aspiration_1 to Aspiration_2	86	2.854	.005
Difference*[3]: OA_1-OA_2 compared to EA_1-EA_2	86	.171	.864

*[1]Values from Table 1.
*[2]Aspirations_1=Aspirations at pay level. Aspirations_2=Aspirations with promotion.
*[3] OA=Overpaid Aspirations EA=Equitable Aspirations

CONCLUSIONS

As suggested by Jaques [12] the pay satisfaction for the overpaid employee was high, but, inconsistent with the theory, the equitably paid employee's satisfaction was judged to be only marginally satisfied. This suggests that efforts to "fairly" pay employees may not result in expected levels of pay satisfaction. Additional research is necessary to determine if "fair-pay-policies" provide the expected positive attitudes [10].

The results reported here suggest that pay condition (overpaid:equitably paid) is a situational variable that effects employees' aspirations for pay. These results are consistent with Easterlin's [6] theory, but the potential for promotion does not appear to influence the range of the overpaid and equitably paid employees' aspiration for pay. It must be recognized, however, that the methodology used in the present study limits the strength of the rejection of promotion as a situational variable. Consequently, evaluation of this conclusion requires additional studies.

Accepting that fear of loss [18] and self-interest [21] prevent increased levels of satisfaction, which is an indicator of the presence of greed, aspirations as defined by Easterlin [6] appears to provide a method of evaluating greed. That is, if the overpaid individual exhibits aspirations greater than that of the fairly paid individual, the difference can reasonably be attributed to greed (self-interest or fear of loss). The different aspiration levels reported here for the overpaid and equitably paid employee may serve as an indication of the emergence of greed on the part of the overpaid employee.

This explanation is consistent with Jaques' [12] suggestion that the overpayment, because of a lack of information as the reason for the overpayment, may stimulate greed. In addition, the explanation provides an important opportunity for additional research to determine the level of overpayment associated with the emergence of self-interest or fear of loss (greed). This is especially true because Jaques [12] suggest the overpayment level to be approximately 10%, which was used in this study. However, additional research is called for to determine the level of overpayment that begins to stimulate greed. Additional studies are necessary also to identify other situational variables (e.g. business category, competitive position, etc.) that may influence the emergence of greed attitudes and behavior.

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APPENDIX A

Questions and Mean Responses for Equitable Payment

In the following questions you will be asked to evaluate the Pay Satisfaction and Aspirations of **Employee Thirty**, who is assigned to Work Team Ten. In responding to the questions, please remember that qualifications, performance, and quality of output of all employees assigned to Team Four are, for all practical purposes, the same.

The pay **Employee Thirty** receives is the same as the pay of the other employees.

By circling a number on the scale below, please evaluate this employee's (Employee Thirty) level of Pay Satisfaction.

(.35)

5 4 3 2 1 0 1 2 3 4 5

Satisfied	Neither Satisfied nor Dissatisfied	Dissatisfied

By circling a number on the scale below, please evaluate Employee Thirty's pay aspiration in the present job.

(4.89)

More than fellow workers	>15%	15%	10%	5%	0 Equal to fellow workers	5%	10%	15%	>15%	Less than fellow workers

Employee Thirty hopes to receive a promotion to a senior position with greater authority and responsibility. Please circle the number on the following scale that you think represents Employee Twelve's pay aspiration in that senior position as compared to colleagues in similar senior positions.

(7.47)

More than fellow workers	>15%	15%	10%	5%	0 Equal to fellow workers	5%	10%	15%	>15%	Less than fellow workers

APPENDIX B

Questions and Mean Responses for Overpayment

In the following questions you will be asked to evaluate the Pay Satisfaction and Aspirations of Employee Twelve, who is assigned to Work Team Six. In responding to the questions, please remember that qualifications, performance, and quality of output of all employees assigned to Team Six are, for all practical purposes, the same.

The pay **Employee Twelve** receives is 10% more than the pay of the other employees.

By circling a number on the scale below, please evaluate this employee's (Employee Twelve) level of <u>Pay Satisfaction.</u>

(3.05)

5 4 3 2 1 0 1 2 3 4 5

Satisfied | Neither Satisfied nor Dissatisfied | Dissatisfied

By circling a number on the scale below, please evaluate Employee Twelve's <u>pay aspiration</u> (wish, hope, desire) in the <u>present job</u>.

(8.51)

More than fellow workers | >15% | 15% | 10% | 5% | 0 | 5% | 10% | 15% | >15% | Less than fellow workers

Equal to fellow workers

Employee Twelve hopes to obtain a promotion to a senior position with greater authority and responsibility. Please circle the number on the following scale that you think represents Employee Twelve's pay aspiration in that senior position.

(11.26)

More than fellow workers | >15% | 15% | 10% | 5% | 0 | 5% | 10% | 15% | >15% | Less than fellow workers

Equal to fellow workers