Title
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Journal
Journal of Management, 11(1)

ISSN
0149-2063

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Publication Date
1985-04-01

DOI
10.1177/014920638501100103

Journal of Management
1985, Vol. 11, No. 1, 19-30

A Contradictory Norms View of Employer-Employee Exchange

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We propose that employer-employee exchanges can be characterized by four contradictory types of normative expectations for the appropriate distribution of rewards: profit maximization, equity, equality, need. We expand on Williamson's (1975) argument that intrafirm transactions are characterized by normative expectations different from those in marketplace transactions and find that his characterization of employer-employee transactions is similar to recent social psychological characterizations of "intimate" relationships. The possible presence of four distinct norms is suggested to be the basis for some types of allocation disagreements within organizations and has implications for management research in organizational climate, socialization, and compensation.

Our purpose in this paper is to focus management research attention on the normative expectations for reward distribution in employer-employee exchanges. We suggest that there is no single normative system governing these exchanges. Much of the complexity of social exchange in organizational settings, and therefore much of the difficulty in managing, derives from the fact that employer-employee relationships are characterized by multiple and often contradictory normative expectations for the appropriate allocation of rewards. Further, an understanding of these inherent contradictions can provide an alternative perspective which is thought provoking and has implications for research on the practical management problems of organizational climate, socialization, and compensation.

The social exchange perspective is truly universal in the social sciences. There has been extensive use of social exchange concepts in anthropology (Frazer, 1919; Malinowski, 1922; Mauss, 1954), sociology (Blau, 1964; Ekeh, 1974; Levi-Strauss, 1969), economics (Coase, 1937; Commons, 1934; Williamson,

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An earlier version of this paper was presented at the annual meeting of the Western Division of the Academy of Management, Phoenix, AZ, March 28, 1980.

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1975), and psychology (Berkowitz & Walster, 1976; Homans, 1961; Thibaut & Kelley, 1959).

Although management applications abound (e.g., equity theory and industrial relations negotiation), they do not directly address the normative expectations governing employer-employee exchanges. The most relevant organizational theories are Schein's (1965) "psychological contract" and Simon's (1947) "inducements/contributions contract." Our argument is the result of a thorough examination of the exchange relationship they identified. We suggest that four distinct types of normative expectations govern these exchanges. Work that is directly concerned with norm differences in exchange, the social psychologists' debate on which norm best characterizes intimate relationships, and Williamson's (1975) discussion of the different norms governing marketplace and firm transactions are applied to employer-employee exchanges. We then analyze why these exchanges can be characterized by four contradictory types of normative expectations, and we conclude with the implications of these norm differences for management research in organizational climate, socialization, and compensation.

The four distinct normative expectations are described below and summarized in Table 1.

1. *Profit maximization:* This norm holds that each party's objective in the exchange is to maximize the value of its own outcomes relative to its own inputs. The other parties' outcomes and inputs are not relevant; attention is to one's own gain only. That is, O_s/I_s is maximized without regard to O_o and I_o, where O_s and I_s are one's own perceived outcome and perceived input, and O_o and I_o are corresponding quantities for the other. This norm is assumed to characterize marketplace transactions (Williamson, 1975); for example, shoppers are assumed to most often buy their goods where they can get the best combination of price, quality, and convenience and to be unconcerned with the profit margin of the alternative sellers. The norm of profit maximization suggests that parties will be primarily motivated to go where they can get the best deal and will not be concerned about the seller's prosperity unless that has a direct bearing on their per-

Table 1

Four Normative Expectations Characterizing Employer-Employee Exchange

Profit Maximization	$\max f\ (O_s, I_s)$
	$f = \frac{O_s}{I_s}$
Equity	$\frac{O_s}{I_s} = \frac{O_o}{I_o}$
Equality	$O_s = O_o$
Need	$O_s = N_s,\ O_o = N_o$

Note. O_s = Subject's own perceived outcomes; I_s = Subject's own perceived inputs; O_o = Subject's perception of other's outcomes; I_o = Subject's perception of other's inputs; N_s = Subject's own perceived needs: N_o = Subject's perception of other's needs.

sonal welfare. Although market exchanges are primarily motivated by interest in personal gain, they may also be characterized by such secondary motivations as socializing and the excitement of bargaining for the best price. In employer-employee exchanges an example would be an employee going to work for the employer that can pay the highest salary, regardless of which company is the most profitable.

2. *Equity:* This norm, also referred to as the norm of reciprocity, dictates that outcomes be divided among parties in proportion to their inputs. That is, those who do more (work harder, produce more) should receive more than their less productive colleagues. For this norm, the distribution of outcomes satisfies the relation $O_s/I_s = O_o/I_o$. Thibaut and Kelley (1959) were among the first to distinguish the norm of reciprocity from the norm of profit maximization, and Gouldner (1960) develops a full discussion of this norm. Berkowitz and Walster (1976) suggest that although individuals attempt to maximize their own outcomes (profit maximization), the group can avoid continual warfare by evolving systems of equitable apportioning of rewards and costs to members. Thus, it is not surprising to find that most management researchers have been interested in the equity norm because organizational members must avoid the problems of continual warfare that unrestrained profit maximization would suggest (Adams, 1965).

3. *Equality:* Under an equality norm outcomes should be distributed equally to all parties, regardless of their respective inputs. In this case, $O_s = O_o$ without regard to I_s or I_o. This norm could be said to take precedence over the equity norms whenever the relative value of the respective inputs is in doubt. An example of this latter case in management would be the awarding of equal bonuses to all members of a successful team when individual contributions are difficult to assess.

4. *Need:* The need norm holds that outcomes should be distributed in proportion to parties' needs for the outcomes, without regard to their relative inputs. That is, participants should seek to provide outcomes whose values are sufficient to satisfy the needs of each party. For this norm, two new terms must be introduced: N_s for one's own needs and N_o for the needs of others. Therefore, the need norm is represented by $O_s = N_s$, $O_o = N_o$, without regard to I_s or I_o. This norm has been called the social responsibility norm by Leventhal (1976). To use another compensation example, employees could be paid according to their need for money, paying those with wealthy families or working spouses less than coworkers with greater financial burdens. This may not be as rare as it seems, since recent justification for low wages for women included the claim that they only worked for "pin money" (i.e., did not need larger salaries).

As can be seen in Table 1, the four normative expectations can be distinguished by their attention to other's outcomes and to inputs. Profit maximization is the only norm that does not consider the other's outcomes. By contrast, equality and need norms do not consider the inputs of either the subject or the other. One implication is that the equity norm might be expected to be useful only under circumstances in which information about the other's outcomes and inputs is available.

It is suggested that employer-employee exchanges are often characterized not simply by the instrumental profit maximization or equity norms but that equality and need norms can become more important than is often assumed; these exchanges can become a complex mix of these four distinct types of normative expectations.

Which Norm Characterizes Social Exchange?

Theorists from the disciplines of social psychology and economics have directly addressed the question of which type of normative expectation characterizes certain social exchanges. Their work enhances our understanding of the conflicting norms in employer-employee exchanges.

Intimate Relationships

Rubin (1970) and Walster, Walster, and Berscheid (1978) argue that even intimate relationships are dependent upon an equitable exchange of rewards (instead of the norm of need satisfaction) and that parties will remain in them only so long as equity can be maintained. Explanations for apparently selfless actions are that the great number of exchanges in long relationships make a strict accounting difficult and that the parties expect imbalance in a current exchange to be correctable in future exchanges (Blau, 1964; Rubin, 1970).

In contrast, Clark and Mills (1979), drawing on Goffman's (1961, pp. 275-276) distinction between economic and social exchange, argue that relationships exist in which the giving of a benefit is in response to another's need for the benefit. For example, if a child becomes ill and requires frequent visits to the doctor's office for treatment, the parents do not consider making only as many trips as the child's "input" merits; they make as many trips as the child needs. Clark and Mills (1979) provide experimental evidence which supports their argument that need norms, not profit maximization or equity, describe most accurately the distribution of resources in intimate relationships.

Unfortunately, there has been no agreement on which normative system characterizes intimate relationships. We propose to resolve this conflict by assuming that each of these norms may be present at one time or another in a given relationship and that most exchange relationships are characterized by both primary and secondary motivations. Intimate relationships, by definition, exist over time and include many exchanges. It is certainly plausible that different norms are applicable to different types of exchanges and that people learn not only the norms, but also the rules for the appropriate application of them. For example, Larwood, Kavanaugh, and Levine (1978) demonstrated that experimental subjects have adopted differing norms: Subjects in cooperative situations were more likely than those in competitive circumstances to allocate resources equally. Different norms can characterize different kinds of exchanges within the same setting; for instance, employees expect office equipment to be allocated equally, or perhaps according to need, whereas promotions should be allocated equitably.

Markets and Hierarchies

Williamson (1975) was concerned with the different environmental and human factors that account for whether or not a transaction will be executed in the market through contracting or in an organization through an employment relationship. He argues that when certain environmental factors are combined with particular human or psychological factors, hierarchies (organizations) become more efficient. Organizations are more efficient because they provide for uncertainty absorption and economize on bounded rationality through specialization. The resultant problem is the encouragement of cooperation among opportunistic specialists on whom firms are dependent. This is accomplished in several ways. Employer auditing and performance monitoring of employees is acceptable to both of these parties, but not to market adversaries. Employers can compensate and promote for cooperation and use authoritative fiat to settle disputes rather than the more costly litigation required of buyers and sellers. Particularly germane to the present analysis is Williamson's (1975) discussion of the difference in the "atmosphere" in which the two types of transactions are conducted:

> "Market exchange tends predominantly to encourage calculative relations of a transaction-specific sort between parties. Such transactions are carefully metered; unsettled obligations do not carry over from one contract, or related set of transactions, to the next. Internal organization, by contrast, is often better able to make allowances for quasimoral involvements among the parties. (p. 38)

Certain features of intimate exchanges resemble Williamson's (1975) description of the employment relationship. Both Walster et al. (1978) and Williamson (1975) argue that marketplace exchange partners have shorter time commitments and fewer rewards and sanctions at their command than do more intimate or firm participants. Both Blau (1964) and Williamson (1975) discuss the greater intrinsic attraction of intimate and employment exchanges—exchanges that are preferred both for the pleasure they give and for their instrumentality. Williamson, as an economist, does not dwell on his assertion of greater employee quasi-moral involvement in comparing them to market contractors. However, he seems to be reflecting what recent organizational psychologists call organizational commitment. Buchanan (1974) suggests that commitment is not simply a calculation of gain or strict fairness, but is "a partisan, affective attachment to the goals and values of an organization, to one's role in relation to goals and values, and to the organization for its own sake, apart from its purely instrumental worth" (p. 533). It could be argued that Williamson's (1975) employment exchanges take on some of the equality norm and need norm characteristics of intimate exchanges. Employer-employee exchanges can, in fact, be characterized as having the normative expectations of both marketplace and intimate exchanges.

A Multiple-Norms View of Organizations

Employer-employee exchange can be viewed as containing the norms of both buyer-seller and intimate exchanges (i.e., profit maximization, equity, equality, and need). This can best be illuminated by examining employer-employee exchanges with regard to two exchange characteristics.

Participants' Motivation: Exchange as Means or Ends?

An important difference between marketplace and intimate exchanges is the reason why participants engage in the exchanges. Participants enter into marketplace exchanges in order to obtain the goods, services, or money the other is offering. A marketplace exchange is dominated by instrumental interests: It is a means by which desired objects can be obtained. In a purely marketplace exchange the parties do not exchange for some enjoyment of the exchange process itself, but simply because it is the easiest way to obtain the means for satisfying their needs.

In contrast, intimate exchange is primarily satisfying intrinsically. For example, good friends often regard the conversations they have with each other as satisfying even if the conversations are perceived as entirely noninstrumental for obtaining other sources of satisfaction. Intimate exchanges are made because they are a necessary support for the interaction itself (Blau, 1964; Ekeh, 1974; Malinowski, 1922). Although intimates frequently have instrumental reasons for their relationship, these are usually considered to be secondary to the intrinsic pleasure of the relationship.

Williamson (1975) argues that employees participate in employer-employee exchanges for a complex set of reasons. He suggests that many employees enjoy the organizational setting and that this kind of camaraderie usually is absent from purely profit-oriented marketplace exchanges. Certainly, the growing body of literature on organizational commitment assumes an affective dimension to the employer-employee relationship (cf. Mowday, Porter, & Steers, 1982). The pleasure that can come from working toward shared goals can be satisfying in itself, regardless of the instrumental gain of employment. Obviously, instrumental gain is a primary reason for organizational membership; this is reflected in the fact that it never disappears as a norm for certain features of the exchange. Yet, for many employees it is unlikely to govern all facets of exchange. Emotions such as commitment, loyalty, and affection are often expressed toward the institutions for which one works.

Expectations of Future Interactions

A second characteristic that differentiates marketplace and intimate exchanges is the expectation of continued exchange with the same parties. Williamson (1975) sees the organizational form as more efficient when transactions are repeated by the same participants. Participants in a competitive market with many buyers and sellers do not have a high expectation that their future exchanges will be with the same partners. In contrast, in intimate and employer-employee ex-

changes there are expectations of future exchanges. Each exchange is viewed in a context of many exchanges, past and future.

In support of Williamson's (1975) contention that a more personal, quasi-moral relationship develops between employers and employees but not between buyers and sellers, laboratory studies suggest that individuals are greedier when they expect to have no future interactions with their present exchange partner (Kidder, Belletirie, & Cohn, 1977; Shapiro, 1975). Therefore, employers and employees would be less likely than marketplace participants to seek profit maximization in a single exchange. Whether this is because some commitment to one another develops or simply because each fears retaliation in a future exchange, there can be little question that the self-interested behavior of the marketplace becomes muted in employer-employee transactions.

When each exchange is viewed in a context of many exchanges, even the rigid application of the equity norm becomes difficult. As Walster et al. (1978) note, strict accounting becomes impossible. In fact, close attention to exact reciprocity often indicates that the participant does not expect, or want, future interactions (Blau, 1964). Over many exchanges, then, both profit maximization and equity norms—the ones based on participants' inputs—become increasingly awkward, although not completely abandoned. The norms ignoring inputs—need and equality norms—are frequently found in employer-employee exchanges. Further, expectations of future interactions would be expected to increase the likelihood of the application of need norms to the exchange. In Japan, where the employment relationship for male professional and managerial employees in the dominant firms is assumed to be permanent, employers and employees are expected to respond to the other's needs such as employers providing recreation facilities and basing salaries on employees' seniority and number of dependents (Nakane, 1970). In addition, expectations of future interactions influence the application of the equality norms. Pay practices in this country contain a strong (if unplanned) equality component (Mahoney, 1979; Nash & Carroll, 1975).

In concluding this argument, we suggest that an understanding of employee behavior can often be enhanced if we conceive of organizational participation as an employer-employee exchange that is governed by norms characterizing marketplace transactions and intimate relations. It is the unique combination of contradictory norms in organizations that distinguishes them from markets, intimate relationships, and other forms of social interaction.

Contradictory Normative Expectations

We propose that employer-employee exchanges are governed by the contradictory norms of profit maximization, equity, equality, and need. These norms can coexist; what varies is the extent to which the rules for the correct application of a norm are clear and the relative emphasis different managements will give to certain norms in particular allocations.

There is evidence that disagreements may develop about which norm is appropriate. Leventhal (1976) suggests that subordinates may believe pay should be distributed relatively equally whereas managers prefer the equity norm. Conflict

and ambiguity in these allocation norms for the employer-employee relationship might be expected to decrease with (a) more attention to socialization of employees, (b) greater congruence in expectations for the relationship prior to employment, and (c) a stable workforce and organizational environment. Because these four norms are contradictory, clarity regarding the distribution of the more salient outcomes would seem to be mandatory.

Managers appear to differ in the relative emphasis they give to certain norms. The observation that organizational "climates" differ may in large part reflect the different distributional rules applied: for example, "paternalistic" (need norm) versus "dog-eat-dog" (profit maximization norm) versus worker or consumer cooperatives (equality norm). No doubt the type of environment, technology, and characteristics of the workforce facing an organization influence the relative predominance of a normative system. For instance, we speculate that when employers are more dependent on their employees, either because performance monitoring is difficult or because the employees have viable alternatives to their present positions, profit maximization will not be emphasized. When employers are vulnerable to retaliation, they are not likely to force an advantage in a given exchange with employees. Need norms may predominate when employers and employees also have no economic ties, as in family firms. The predominance of equality norms seems to occur only in those organizations with a strong ideological commitment to equality; in this country these organizations seem to be subject to strong appeals for the application of equity norms. For example, Rothschild-Whitt (1976) documents the struggle in "alternative organizations" such as the "free clinics" and "free schools" of the 1960's and 1970's, to balance a commitment to equality in reward distribution with the desire to be fairer or more equitable to the hardest working members.

A brief discussion of the measurement of the normative expectations for employer-employee exchange helps illuminate the boundaries of this application of exchange theory. The measurement task should properly build on the efforts of Jackson (1965). His model focuses on the distribution of potential approval and disapproval others feel for various behaviors which might be exhibited in a given situation. Actual measurement of relative approval could be obtained by asking the relevant partners directly, or it could be inferred from observations of behavior. This indicates two limitations of the present analysis. First, Jackson (1965) and his colleagues are interested in the expectations of individuals for one another; in the present use of norms one of the partners to the exchange, the employer, is usually an abstraction that (strictly speaking) can have no expectations. It is the employee's, as well as other employees', managers', and outsiders' expectations for the employer that are of interest. As a practical matter, these actors' views of the employer's expectations, must somehow be combined; and there is no a priori reason to prefer one method to another. Second, this measurement approach assumes that norms are both stable and relatively simple. Jackson's model would probably have difficulty with uncrystallized norms or very complex expectations. Yet these circumstances are relatively common in organizations and seem to provide the more useful management applications of the present argument.

Implications

The multiple-norm view of the employer-employee relationship has implications for several areas of management research. In each case, the view provides a theoretical perspective that can help organize current research and direct future efforts. It is particularly relevant for organizational climate, socialization, and compensation.

Organizational Climate

Although organizational climate has had several different meanings (Guion, 1973), the concept has been used to summarize members' overall perception of organizational and task characteristics (Hellriegel & Slocum, 1974). Although researchers have presented strong arguments that climate is a characteristic of the organization rather than of an individual and that this overall assessment could be expected to influence member action, the absence of a theoretical justification for the ways individuals combine judgments into overall perceptions has limited the usefulness of this work. We feel that norm differences can provide this mechanism. Organizational climate research might benefit from research on the following questions:

1. Which norms are applied to which rewards in this organization? Under what circumstances?
2. How does norm mismatch affect employee satisfaction and performance?
3. Do the norm types that ignore input (i.e., need and equality) lead to less effort or lower performance because outcome distribution ignores them?

Socialization

Recent research in socialization has focused on the processes in the socialization of new employees and the structural features of the organization that influence these processes (Feldman, 1976; Van Maanen, 1976). Yet, the norms for the distribution of rewards are probably one of the most important "contents" of what is learned during socialization. The multiple-norms view provides a way of describing what is learned that is generalizable across organizations. Important research questions include:

1. How do new employees develop clear expectations about reward distributions?
2. How maleable are particular normative expectations?

Compensation Decisions

Much of the literature on compensation seems to suggest that equity is the only norm considered appropriate for the distribution of organizational rewards. However, as is indicated by the above discussion, other norms are also adopted. Larwood et al. (1978) present evidence suggesting that employees may vary in their preference for compensation distribution rules and argue that managers who make salary decisions should follow the distribution rule preferred by their subordinates. Leventhal (1976) discusses some of the factors which determine

whether managerial salary allocators and their subordinates will be more likely to prefer equity or equality. He also suggests that subordinates may differ among themselves concerning the appropriateness of these two distribution norms.

Recognizing the existence of multiple distribution norms leads to several research questions concerning the way managers allocate organizational rewards to their subordinates:

1. What should managers do when their subordinates disagree among themselves over the allocation norm that should be used?
2. Will the allocation norm preferred by the subordinates necessarily be the one that is most beneficial for the organization?
3. What factors determine subordinates' and their managers' perceptions of the appropriateness of norms for the distribution of organizational rewards?

Conclusion

This paper presents some initial steps in the development of a multiple-norms view of organizations. Employer-employee exchange, in large part due to the extended interaction among participants, takes on some of the norms of intimate exchanges. Organizations' rules for the distribution of rewards can include profit maximization, equity, equality, and need-based normative expectations. This perspective can help to organize current management research and can direct future efforts in the areas of organizational climate, socialization, and compensation. Viewing employer-employee relationships as composed of potentially four contradictory normative expectations provides a way to treat operationally many of the implicit assumptions employees have for the relationship. Despite the difficulties in measuring normative expectations noted above, this approach is intended to aid the articulation of a clear foundation and structure for research and managerial practice.

This multitude of value systems can create misunderstandings, but can also give managers much flexibility in the creation of their relationships. This multitude of norm possibilities is one of the ways in which the tremendous number of forms and characteristics of organizations can be conceptualized. Unlike the marketplace, in which the norms for exchange are relatively unambiguous, organizations are more complex settings where managers' and subordinates' actions are based on subtle differences in expectations. Perhaps the difficulties management theorists have had in developing more general theories of the management process are partly due to this clash of conflicting and changing expectations.

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Received May 3, 1983 ■

First revision received August 11, 1983 ■

Second revision received November 28, 1983 ■

Final draft received February 17, 1984 ■

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