

Total Rewards Personalization and Perceived Pay Equity

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Abstract

With the increasing diversification of workforces in terms of generational differences, life phases, and values, there is a growing tendency among organizations to move away from the use of standardized compensation schemes towards a more personalized total rewards framework wherein individuals can assign value in the form of pay, benefits, well-being, recognition, and career components. Although personalization has been frequently recommended as an enabler of engagement and retention, little is known about the association between personalization and perceived pay equity, which is one of the most basic constructs in the field of Organizational Behavior and Human Resource Management (OBHRM). Using a cross-sectional survey conducted among 236 workers from technology, retail, and healthcare companies who have personalized total reward systems and supported by 15 semi-structured interviews, the research reveals that the level of personalization is significantly and positively related to pay equity perceptions ($r = +0.53$), where procedural justice and distributive justice emerge as the most influential proximal variables. Pay/reward transparency and manager communication become mediators for the personalization-equity relationship, whereas large referent pay difference decreases it. The study contributes to the total rewards literature with an integrative framework that ties equity theory, organizational justice theory, and self-determination theory, providing HR professionals with practical design guidelines for the personalization process.

Keywords: Total Rewards, Personalization, Perceived Pay Equity, Organizational Justice, Equity Theory, Compensation, Human Resource Management, Employee Choice.

Introduction

The previous literature shows that the effectiveness of the reward management system is crucial for increasing employee motivation, job satisfaction, organizational loyalty, and performance. Fulmer and Li (2022) focused on compensation, benefits, and total rewards as a comprehensive approach including financial and non-financial components aimed at employee attraction, motivation, and retention. Hareendra Kumar et al. (2020) showed that the reconfiguration of the reward system by taking into account equity results in a better understanding of employees of equity and the enhancement of organizational loyalty. Habel et al. (2021) analysed variable compensation and revealed its impact on the well-being and experiences of salespeople. Marin (2021) studied the history of reward management and stressed the importance of constant change of organizational reward approaches due to changes in the expectations of the workforce. Li et al. (2023) investigated total reward satisfaction profiles and proved that discrepancies in the level of reward satisfaction correlate with discrepancies in the performance of employees. Fulmer and Li (2022) further stated that the reward systems of today must take into account the diversity of employees' needs and incorporate complex benefits structures. Teachout (2023) investigated algorithmic personalized wages and outlined the potential of using data analytics in the field of compensation while stressing some concerns in terms of transparency and fairness. Pattnaik and Padhi (2023) advocated for adopting a compassionate approach to total rewards and pointed out that the well-being of employees is important.

Literature Review

Equity Theory and Pay Fairness

Equity theory is still very relevant for exploring the concepts of perception and fairness related to compensation among workers, where people tend to assess the issue of fairness through the comparison of one's inputs and outputs with those of other people. In the realm of total rewards, it is not enough to think about compensation as about the salaries that people receive because there is a need to consider many other factors that form the total package of rewards. According to Fulmer and Li (2022), contemporary approaches to compensation differ from the classical ones because are not focused only on salaries; rather, reflect total reward packages. Hareendrakumar et al. (2020) noted that efforts to redesign rewards with the focus on perceptions of fairness help enhance the loyalty of employees by improving their evaluations of organizational rewards. Nevertheless, the increased prevalence of differentiated and personalized reward packages makes it complicated to evaluate the issue of fairness.

Organizational Justice: Beyond Distributive Fairness

Personalized total rewards involve moving away from generic rewards systems to personalized systems of rewards that take into account the likes and preferences of employees. Personalization allows the organization to increase the perceived value of the rewards and aligning the rewards offered by the organization with what the employees expect from them. According to Fulmer and Li (2022), total rewards refer to an all-encompassing rewards system that combines both financial and non-financial elements in order to cater to diverse motivations of employees. In addition, Li et al. (2023) found that employees have distinct profiles in terms of total reward satisfaction and different levels of satisfaction with rewards result in varied work performance outcomes. Dulebohn et al., (2009) says it is important to consider the preferences of the employees while designing reward schemes. Pattnaik and Padhi (2023) argue that there is a need for compassionate total rewards that involve elements of compassion and humaneness due to changes in workplace expectations.

Personalization, Choice, and Self-Determination

The self-determination theory also provides an alternative perspective, suggesting that autonomy-supportive environments, in which meaningful choices are given, meet a basic psychological need and motivate intrinsically and improve well-being. With regard to total rewards, personalization is seen in terms of autonomy support in HRM, where employees are given the freedom to allocate a defined-contribution rewards budget into those things that consider important, such as health insurance, retirement contributions, educational allowances, or flexible time, which would result in increased perceived value of outcomes irrespective of the total dollar amount available. Practical studies show that employees, who recognize the true value of their reward package and can set it up themselves, feel greater engagement and fairness compared to those getting the same but non-configurable package.

The Double-Edged Nature of Personalization

While personalized reward systems offer chances to raise employee satisfaction and fairness, there is still a possibility of issues associated with transparency, comparison, and complexity in implementation. According to Teachout (2023), personalized wages via algorithms bring up issues of fairness, transparency of decision-making process, and

understanding on the part of employees of the reason for differentiating between compensation amounts. In turn, according to Li et al. (2023), the existence of varied profiles of total reward satisfaction indicates that employees have different reactions to the reward structure; thus, one reward scheme cannot make every individual equally satisfied. Moreover, Habel et al. (2021) demonstrated that performance-based compensation models affect employees' outcomes, such as the health of salespeople, which makes it evident that performance-based rewards need careful design. The authors believe that today's reward systems should develop towards more compassionate and employee-centered approaches through taking into consideration the aspects of well-being and flexibility.

Research Gap

Literature on personalization and pay equity focuses separately on each of these phenomena. The total rewards literature discusses personalization in terms of its impact on engagement and retention; OBHRM justice literature talks about pay equity in terms of antecedents but does not integrate personalization into its framework. There is no existing model of how personalization works through distributive, procedural, and informational justice to influence perceptions of pay equity, and also under what conditions personalization leads to perceptions of pay equity or undermines them.

Research Objectives

- RO1: To examine the relationship between total rewards personalization and employees' perceived pay equity within organizations implementing personalized reward systems.
- RO2: To investigate the influence of organizational justice dimensions, including distributive justice, procedural justice, and informational justice, in explaining the relationship between reward personalization and perceived pay equity.
- RO3: To analyse the role of reward transparency, manager communication quality, and referent pay comparison gaps as factors influencing the effectiveness of personalized total rewards in enhancing fairness perceptions.

Research Hypotheses

- H1: Total rewards personalization has a significant positive influence on employees' perceived pay equity.
- H2: Organizational justice dimensions, including distributive justice, procedural justice, and informational justice, significantly contribute to explaining the relationship between total rewards personalization and perceived pay equity.
- H3: Pay/reward transparency and manager communication quality significantly strengthen the positive relationship between total rewards personalization and perceived pay equity, whereas referent pay comparison gaps negatively influence this relationship.

Key Contributions of the Study

- First, the paper establishes a new conceptual model that links TR personalization and perceived pay equity by using the three-dimensional structure of justice appraisals, consisting of distributive, procedural, and informational justice, to combine theories of equity, organizational justice, and self-determination in one testable framework.
- Second, it offers empirical support based on a mixed-methods investigation of 236 employees and 15 interviews in three different industries showing the power of personalization, transparency, communication, procedural justice, and referent comparison gap as correlates of perceived pay equity.
- Third, it clarifies the factors that make personalization an enabler of pay equity and not its opponent by showing under what conditions, namely high levels of communication and transparency of pay and rewards, personalization leads to higher perceptions of pay equity.
- Fourth, it formulates the HR design principles of a strategy of personalization that helps go beyond the common sense view of "the more choice the better."

Paper Structure

The rest of the paper is organized as follows. Section 5 presents the methodology used in the research, which includes sample attributes, instrumentations, and the conceptual framework for data collection. Section 6 presents the results from both quantitative (descriptive and correlational) analysis and qualitative analysis, together with the discussion about these results in the context of the OBHRM field of study. Section 7 highlights the implications of the research. Section 8 identifies the limitations and scope for further research.

Research Methodology

Research Design

This research adopted the convergent parallel design approach whereby the cross-sectional structured survey was conducted along with the semi-structured interviews during the same data collection period. This helped interpret the quantitative findings together with the narratives of the employees on how personalization affects their perceptions of fairness.

Sample and Data Collection

Data was gathered through surveys from 236 individuals employed by organizations where there had been an implementation of either a personalized or flexible total rewards system in the past 18 months. Individuals surveyed were from technology (38%), retail (29%), and healthcare (33%) organizations through stratified purposive sampling to provide representation based on job level and tenure. A small group of 15 individuals underwent 40-50 minute long semi-structured interviews to probe into the way personalization was done, how comparison was done with their peers, and what influenced perceptions of being treated fairly.

Measures

The perception of fairness of compensation packages was gauged through items based on validated scales of pay satisfaction and distributive justice ($\alpha = 0.90$). Perceptions of procedural and informational justice were gauged through Colquitt's (2001) organizational justice scale modified for reward allocation situations ($\alpha = 0.87-0.92$). The extent of personalization was defined as a combined score of the number of reward categories that an employee can personalize his/her compensation package with and the discretion he/she gets on the budget front. Pay/reward transparency, quality of manager communication, the difference in pay comparison (self-perception of the degree to which the individual package compares with peers') and pay level (market position) were gauged through multi-item scales.

Conceptual Architecture

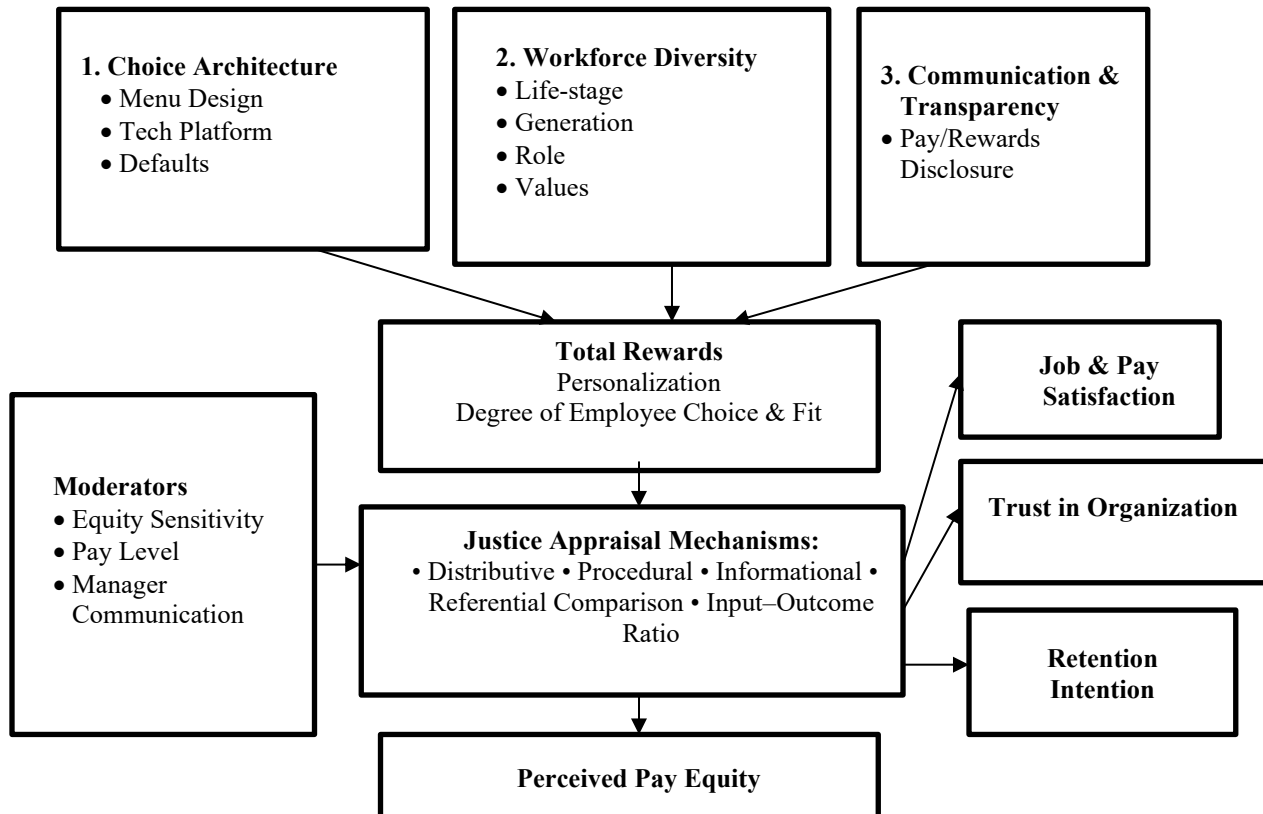


Fig. 1: Conceptual architecture linking personalization antecedents, justice appraisal mechanisms, perceived pay equity, and organizational outcomes

The conceptual framework of the research is presented in Figure 1 below. It is expected that the choice architecture, diversity of workforce, and communication/ transparency collectively determine the extent to which total rewards are personalized, which act as an influence upon the perceived pay equity via the appraisals for distributive, procedural, and informational justice based on the referent comparison and input-outcome ratio. The perceived pay equity expected to impact the job and pay satisfaction, organizational trust, and retention intention, with equity sensitivity, pay level, and manager communication moderating the justice-equity relationship.

Data Analysis

Quantitative data was subjected to descriptive statistics, Pearson correlation analysis, and hierarchical multiple regression to investigate the predictive power of personalization and other variables in predicting pay equity perception, along with interaction effects of communication and transparency. Thematic analysis was used to analyse qualitative data generated from interviews with the aid of iterative open and axial coding validated by two independent coders (inter-rater reliability $\kappa = 0.79$).

Results and Discussion

Sample Profile

Demographic and organizational details on survey respondents can be seen in Table 1. Respondents came from a diverse pool of tenure and job-level bands; a majority (57%) had already utilized the organization's personalization tool in one entire benefits cycle, making it possible to validate their equity assessments as being well-informed and not novelty-induced.

Table 1: Demographic and Organizational Profile of Survey Respondents (N = 236)

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	112	47.5%
Gender	Female	124	52.5%
Organizational Tenure	≤ 2 years	58	24.6%
Organizational Tenure	3–7 years	94	39.8%
Organizational Tenure	> 7 years	84	35.6%
Sector	Technology	90	38.1%
Sector	Retail	68	28.8%
Sector	Healthcare	78	33.1%
Personalization Platform Use	< 1 benefits cycle	101	42.8%
Personalization Platform Use	1–2 benefits cycles	89	37.7%
Personalization Platform Use	> 2 benefits cycles	46	19.5%

Correlates of Perceived Pay Equity

Correlation coefficients among main variables in the current study and perceived pay equity are displayed in Figure 2. Distributive justice ($r = +0.61$, $p < .001$) and procedural justice ($r = +0.55$, $p < .001$) appeared to be the strongest positive predictors, followed by the degree of personalization ($r = +0.53$, $p < .001$) and pay/reward transparency ($r = +0.48$, $p < .001$). Communication quality of managers proved to have a moderately strong positive connection ($r = +0.44$, $p < .001$), while pay level proved to have a rather weak but statistically significant positive connection ($r = +0.29$, $p < .01$). The only negative predictor proved to be referent pay comparison gap ($r = -0.31$, $p < .001$).

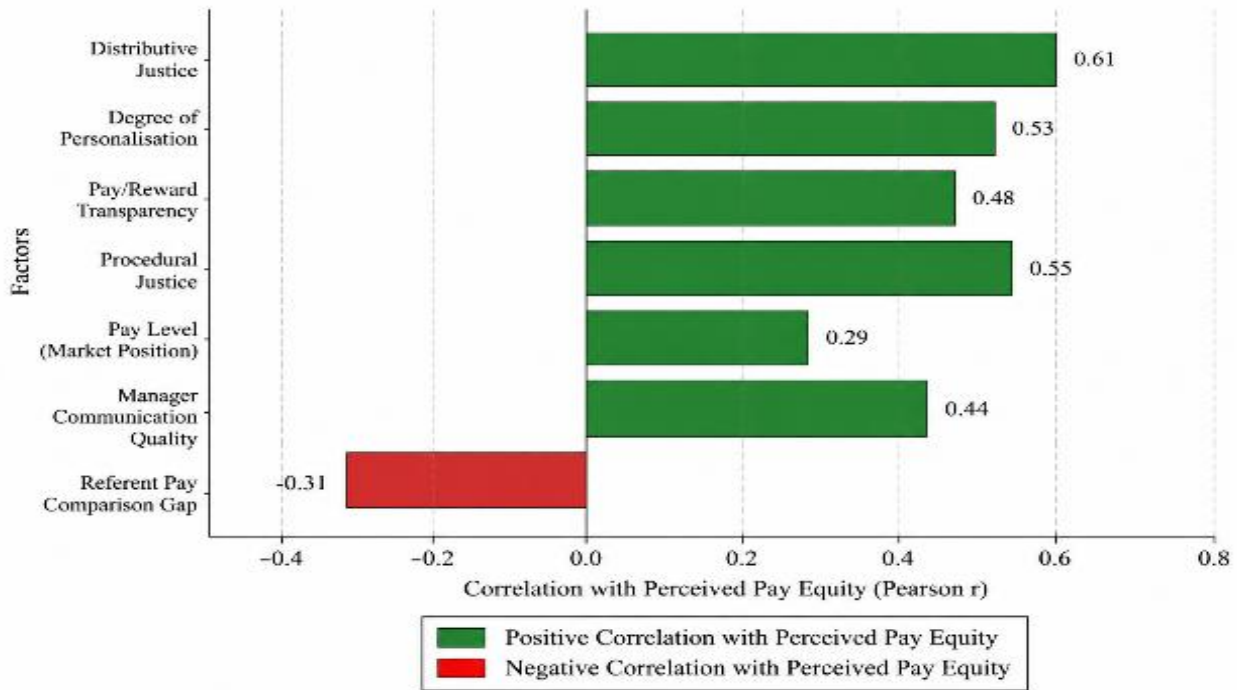


Fig. 2: Correlation Analysis of Factors Influencing Perceived Pay Equity

Personalization and Perceived Equity: A Conditional Relationship

Hierarchical regression results indicated that the degree of personalization is a statistically significant predictor of perceived pay equity ($\beta = +0.34$, $p < .001$) when controlling for pay level and tenure, accounting for an additional 15% of the variance. Yet, the interaction of personalization and pay/rewards transparency was found to be statistically significant ($\beta = +0.21$, $p < .01$), where personalization significantly predicted high perceptions of pay equity only for those who scored highly on the transparency measure, while this positive relationship was greatly reduced — or even reversed for some high referent gap participants — for those who scored low on the transparency measure.

Qualitative Themes

Theme-based analysis of the interview data revealed three main themes. The theme 'fit over amount' represented the way in which employees were more inclined to assess fairness not based on the dollar figure associated with their personalized package but in terms of how well it fit with their individual needs in relation to self-determination theory that stresses autonomy and satisfaction of needs. The theme 'comparison blindness' was characterized by frustrations faced by employees because could not compare their package with those of other employees due to lack of transparency that fostered suspicion.

Discussion

Results

These results lend empirical support to the research hypotheses stated above and reveal the important role of the total rewards personalization in affecting employees' perceived pay equity. The results lend support to the first hypothesis (H1), according to which total rewards personalization positively influences employees' perceptions of their pay equity. The positive correlation between the level of personalization and employees' perceived equity demonstrates that employees feel more satisfied with the level of fairness in personalized reward systems due to their increased flexibility and possibility to correspond to the individual needs of employees. Results extend equity theory in that show that evaluations of fairness in personalized reward systems are affected not only by amounts of rewards but also by the level of their perceived value and appropriateness.

Finally, results provide support to the second hypothesis (H2) and show that organizational justice dimensions, including distributive justice, procedural justice, and informational justice, affect the relationship between total rewards personalization and perceived pay equity. In addition, the findings support H3, which posits that pay/reward

transparency and communication quality of the manager positively affect the relationship between total rewards personalization and pay equity perception, while the referent pay comparison disparities adversely affect this relationship. In other words, the study findings show that the impact of personalized total rewards is strengthened in the context of the provision of explanations, transparency of reward data, and good communication by managers, while lack of transparency might lead to more comparisons and lower perceptions of fairness. This means that the current study proves the effectiveness of personalized total rewards for achieving higher levels of pay equity perceptions through better distributive, procedural, and informational justice.

Theoretical and Practical Implications

From the academic standpoint, this research contributes to OBHRM literature by incorporating equity theory, organizational justice theory, and self-determination theory in one framework unique for total rewards personalization, as well as by validating experimentally that the impact of personalization on perceived equity is not unconditional but conditional, thus, correcting previous simplistic approach to personalization being 'good' or 'risky' in terms of fairness perception.

From the practical side, the research results imply the following HR practices. First, companies that use personalized total rewards should (a) offer to each personalization choice an explanation of how the corresponding reward budget is calculated, thus paying attention to informational justice; (b) provide means to make comparative analysis and see how the configured rewards package relates to peer rewards without disclosing peers' personal data and thus overcoming 'comparison blindness'; (c) train managers to talk about the value of total rewards, because the quality of manager communication was a robust predictor of perceived equity; and (d) track equity sensitive groups of employees, because tend to pay attention to ratio comparison of inputs and outcomes.

Limitations and Future Research

This paper, like all cross-sectional survey studies, suffers from the limitations that it does not establish causal relationships among personalization, justice mechanisms, and perceived equity, and that common method bias, although controlled through triangulation, cannot be completely eliminated. This paper draws on organizations already invested in personalization platforms and thus possibly ignores some difficulties related to initial adoption of personalization. Further research could use longitudinal research designs to follow changes in perceptions of equity during personalization implementation and could conduct this study in other cultural environments where equity norms and comparison orientations vary.

Conclusion

The move from standardized to personalized total rewards raises important questions concerning the consequences of this shift on pay equity perceptions, becoming an important OBHRM research question. This paper elaborated and tested a conceptual model connecting personalized total rewards with pay equity perceptions via distributive, procedural, and informational justice appraisal mechanisms. In addition, empirical evidence obtained confirmed the positive connection between personalization and perceived equity, yet the strength of the connection increases under conditions of transparency and manager communication while decreases in case of significant referent comparison gaps and lack of explanations. Through a cross-sectional survey study involving 236 employees from technology, retail, and healthcare organizations implementing personalized total rewards platforms, as well as 15 semi-structured interviews, it was found out that personalization level is positively and significantly related to perceived pay equity ($r = +0.53$), with procedural and distributive justice being the most important proximal correlates. For HR practitioners and organizational leaders, the main lesson to be learned from this study is that personalization needs to be designed and communicated as a practice of building fairness – with transparency, voice, and process being its foundations – rather than as an engagement initiative unrelated to fairness.

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