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IMPACT OF SUBORDINATE THREATS ON LEADERS' PAY ALLOCATION DECISIONS

Mark Fulford, University of Central Missouri

In many different contexts within organizations today, attempts are made by direct reports to influence the decisions of their leaders. In no context does the resulting decision hit closer to home for a direct report than those related to the allocation of pay raises. Under what conditions are attempts by direct reports to influence their leaders' pay allocation decisions most effective? What effect does a threat by the subordinate have on the leader's decision? Does the severity of the threat used matter? In an attempt to answer these questions, a study was conducted of leaders' pay allocation decisions under the conditions of varying levels of dependence and varying levels of severity of threat used by a focal direct report. Results indicated support for the interactive effects between dependence and dependency threats on leaders' pay allocation decisions (i.e., leaders allocated significantly higher increases to those direct reports upon whom they were highly dependent only when the direct report threatened the dependence relationship). Support was also found for the effects of threat severity (i.e., when the leader was highly dependent on the subordinate, more severe threats led to higher allocations). The results allow a more complete understanding of managerial pay allocation decisions and provide the groundwork for additional research.

INTRODUCTION

Pay has been shown to have significant effects on the attitudes and behaviors of employees (Lawler, 1981c). In attempting to increase employee motivation, many organizations have implemented merit pay programs. However, such programs have come under severe scrutiny for appearing to recognize and reward factors other than performance (thus violating the "merit" principle). Many of the investigations into this area have focused on the heuristics (or decision-making strategies) used by allocators (Deshpande & Schoderbek, 1993; Higgins, Judge, & Ferris, 2003); the assumption is that allocators (some more than others) are subconsciously biased by factors other than performance. However, it is also possible, in some cases, that allocators are well aware that their pay allocation decisions are inconsistent with what is merited based solely on performance. It is plausible that some allocators are reacting to "upward influence attempts" (Kipnis, Schmidt, & Wilkinson, 1980; Yukl & Falbe, 1990) by their direct reports who hope to receive pay allocations in excess of that which is merited by their performance alone (Thacker, 1998). If this is the case, under what conditions might these attempts be most successful?

Dependence

According to French & Raven (1959), pay is a source of reward power which an allocator can use to influence the behavior of direct reports. However, reciprocal influence is possible as well. Bartol & Martin (1988) argue that managers use pay not only as a reward for performance, but also as a way to manage their dependencies on direct reports. As they point out, "Individuals possess power because others are dependent upon them for access to resources that cannot be obtained easily elsewhere", (p. 364).

One source of dependence on direct reports is the possession of skills which are not easily replaced from the labor pool (Bartol & Martin, 1988; Pfeffer, 1981). Freedman & Montanari (1980) state, "employees who possess skills that are in high demand are in powerful positions relative to the organization. This power can be used to shift the emphasis of managerial goals for the reward program from performance to attraction and retention", (p. 387). Kanter (1977) proposes several sources that may create a situation of dependency of the leader on the subordinate: performance monitorship (when performance becomes more difficult to monitor); performance visibility (when more individuals are aware of the outcomes of ones performance); specialized skills (when the direct report possesses skills the leader does not}; task centrality (when the tasks performed by the direct report are part of the leader's current agenda); and organizational connections (when the direct report is politically connected within the organization).
Dependence Threat

Given that leaders are dependent on every subordinate to some extent, what other factors affect managerial pay allocation decisions? According to Bartol & Martin (1988), leaders must carefully consider the types of relationships which exist between themselves and each of their direct reports. They propose that leaders will not only consider the degree of dependence on a particular direct report, but also the potential threat to the dependency relationship. In other words, allocators will only “pay” for dependence when that dependence relationship is threatened. Dependency threats are made in one of several ways: potential direct report turnover, including movement within the organization; potential declines in critical direct report behaviors in dependence areas (e.g., reduced productivity, increased absenteeism, less willingness to share specialized knowledge/skills, etc.); and potential subversive actions against the supervisor.

Bartol & Martin (1989) proposed several conditions that should result in a larger than normal pay increase from the allocator: 1) the request is strong enough to constitute a dependency threat, 2) the situation provides some hope of resolving the problem with better pay, and 3) the demand is not so strong that it is perceived as a direct challenge to the power of the allocator. Under low dependence conditions, it is thought that threats of any kind will not be effective (i.e., the leader does not rely heavily upon the subordinate; therefore, threats of any kind do not have to be tolerated). Under high dependence conditions, it is thought that threats are more effective as their severity increases-up to a point. Remember that pay allocation is a way for the leader to maintain control over dependencies. Given a direct report, upon whom the leader is highly dependent, making excessive demands or threats, the leader’s control is threatened. Therefore, the leader may initially award a high increase in order to restore control, but, perhaps due to psychological reactance (Brehm, 1966), the leader’s perception of the direct report may become more negative and, in the long run, may result in attempts by the leader to get rid of the troublemaker (Thacker & Wayne, 1995). One way to do this may be to intentionally award low increases to prompt the direct report to sever the relationship.

Hypothesis 1: Leaders’ pay allocation decisions are affected by dependence on the subordinate only when the subordinate threatens the dependency relationship.

Hypothesis 2: When leaders are highly dependent on subordinates, their pay allocation decisions are directly related to the severity of subordinates’ threats to the dependence relationship.

Very little empirical work has been conducted in these areas. As a matter of fact, there are only two studies which have investigated the dependence-dependency threat interaction (Bartol & Martin, 1990; 1989). Up to this point, there have been no investigations of the effects of varying levels of dependency threat severity on pay allocation decisions. In each of the two studies noted above, dependency threat did not vary; it was either present or absent. In an attempt to determine the effects of threat severity on the pay allocations of leaders who are dependent on the focal direct report, a study of managerial pay allocation decisions was undertaken. By looking at two types of influence tactics which differ in severity (an approach not investigated previously), along with dependence issues, this research will extend the previous work in this area and will lay the groundwork toward a more complete understanding of managerial pay allocation decisions.

Methodology

Because pay is such a sensitive issue within organizations, gaining access to the pay allocation decisions of leaders is difficult. However, it is possible to recreate situations for those with pay allocation experience where their decisions are more easily captured. One hundred fourteen participants in a leadership development program at a metropolitan area university located in the Midwestern United States served as the study sample. Because most of these individuals were employed full-time within organizations, it was assumed that a sufficient number of them would have experience making pay allocation decisions.

An in-basket exercise was used in which the pay allocation issue was embedded. Subjects were instructed to assume the role of a newly appointed Vice-President in charge of the credit analysis unit of a regional commercial bank. According to the information provided, the previous unit head had left on short notice to take a higher level position at another bank. Each subject was told that they had been transferred from an area bank that had just been acquired by the regional bank. The previous unit head provided some brief background information regarding the job: the work load had been unusually heavy lately and getting and keeping qualified people had
been a continuing difficulty. Information was provided regarding the subject’s new staff of five credit analysts, including name, tenure with the regional bank, previous place of employment, and special area of expertise. All of the analysts were given gender neutral first names to avoid confounding the study manipulations with gender effects. The focal analyst was described as having been with the regional bank for three years and specialized in “high growth companies, particularly involving loans to be secured by accounts receivable and/or inventory (often referred to as ‘asset based lending’).” None of the other analysts were described as having this special area of expertise.

The situation was depicted as a Sunday afternoon; no one else was in the office, the files were locked, and the subject had arrived at the office for the first time. In addition, the subject would be leaving that evening for an important bank training program that would last a week and would not leave time to do any office work. Hence, any pressing matters had to be handled prior to leaving. A memo from the Vice President of Human Resources indicated that recommended pay raises had to be turned in on an attached form by the deadline, three days away. The memo further stated that if the recommendations were not received by the due date, fifty percent of the unit raise money would automatically revert back to the central merit pool. Each subject had to make the merit increase recommendations, because the previous unit head sent a memo to the subject stating that he felt the new department head should determine the pay raises. The previous unit head included his most recent appraisals of the staff’s individual performance. The rating scale contained five levels, ranging from exceptional to unsatisfactory. Only the top three levels (exceptional, commendable, and good) were assigned to the five analysts. The focal analyst was given a commendable rating.

The memo from the vice president of HR also informed subjects that $17,500 was available for distribution among the five analysts. The attached merit raise recommendation form contained the names of the analysts and their current salaries, which ranged from $28,000 to $40,000, along with a set of boxes in which to place the recommendation. The current salary for the focal analyst was $36,000, making him/her the third highest paid analyst.

Two levels of dependence were created; low and high. The dependence variable was manipulated by a copy of a memo from the Executive Vice President of Loans to the individual to whom the subjects directly reported indicating a shift in strategic directions by the bank’s strategic planning committee. In the low dependence condition, the memo stated that there would be less emphasis on commercial lending to high growth companies. This shift in strategic direction lowered the dependence on the focal analyst relative to the other analysts who had expertise in more traditional lending areas. In the high dependence condition, the memo stated that the strategic planning committee had decided to shift toward greater emphasis on commercial lending to high growth companies. This shift had the effect of raising dependence on the focal analyst since none of the other analysts had this expertise.

Three levels of dependency threat were created; low, medium, and high. It should be pointed out, however, that the high condition was not meant to be so severe as to cause the “reactance” phenomenon (Brehm, 1966) as proposed by Bartol & Martin (1988). It was only meant to be more severe than the medium condition in order to test the effects of threat severity. This variable was also manipulated via memo contained in the exercise. In the high threat severity condition, the focal analyst acknowledged that merit raise recommendations were due shortly and that a substantial increase was expected. The focal analyst also threatened the subject by indicating that if a substantial increase were not received, an offer of employment received from a competing firm would be accepted. In the moderate threat severity condition, the focal analyst acknowledged that merit raise recommendations were due shortly and that, if a sizeable increase were not received, he/she may have to begin exploring other alternatives. In the low threat severity condition, the focal analyst informed the subject that he/she was applying to the bank for a mortgage loan, because he/she was building a new house.

Subjects were asked, as part of the in-baskit exercise, to allocate merit pay to all five analysts whose performance appraisal ratings were provided. However, the only information of interest was that pertaining to the allocations made for the focal analyst. Therefore, the dependent variable represented the dollar amount of the recommended increase for the focal analyst.

A 2x3 between-subjects factorial design was used in this study (all manipulations were checked in a pilot study and found to be operating as expected). Based upon the results from a Power Analysis procedure outlined by Cohen (1977), the target was at least 15 subjects per cell. Thus, a minimum of 90 subjects was desired. As indicated earlier, 114 subjects went through the in-basket exercise. However, only 104 of those subjects provided complete information on all of the variables of interest. The number of subjects in the final study still exceeds the
number required by the power analysis. Of the 104 subjects that provided complete information, 15 were in the low-low treatment condition, 17 were in the low-medium treatment condition, 18 were in the low-high treatment condition, 18 were in the high-low treatment condition, 19 were in the high-medium treatment condition, and 17 were in the high-high treatment condition.

An analysis of variance (ANOVA) was used to test the main effects of dependence and dependency threat severity, as well as the interaction effect between them, on subjects’ pay allocation decisions. In order to fully test for the effects of threat severity, one-way ANOVAs were used to test the mean differences across study conditions.

As a result, subject demographics were as follows: 59% male, 41% female; 48% of the men had experience supervising the work of others, while 33% of the women had such experience; 43% of the men had made merit allocations previously, while 33% of the women had made merit allocations previously, meaning 39% of all subjects had this experience prior to the study; the average number of years of work experience for the entire subject population was 7.2 years, with a range from 1-23 years; there were no significant differences in years of work experience between the men and the women.

Table 1 illustrates the mean salary increase recommendations for the focal analyst (the direct report upon whom subjects were dependent and by whom they were threatened) according to each of the study conditions.

Table 1: Mean Pay Increase Recommendations (in Dollars) for the Focal Analyst by Each Study Condition

<table>
<thead>
<tr>
<th>Dependency Threat Severity</th>
<th>Low Dependence</th>
<th>High Dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>$3615.43</td>
<td>$3643.78</td>
</tr>
<tr>
<td>Medium</td>
<td>$3749.41</td>
<td>$3699.70</td>
</tr>
<tr>
<td>High</td>
<td>$3665.28</td>
<td>$4080.82</td>
</tr>
</tbody>
</table>

In order to statistically determine whether managerial pay allocation decisions are affected by the presence of dependency relationships only when the dependency relationships are threatened (i.e., test hypothesis 1), an ANOVA was performed to examine the interaction between dependence and dependency threat.

Table 2: ANOVA Results for the 2x3 Dependence/Dependency Threat Factorial

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>DF</th>
<th>MS</th>
<th>F</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependence (D)</td>
<td>1</td>
<td>447806.97</td>
<td>2.67</td>
<td>.105</td>
</tr>
<tr>
<td>Dependency Threat Severity (TS)</td>
<td>2</td>
<td>517180.04</td>
<td>3.09</td>
<td>.050</td>
</tr>
<tr>
<td>Interaction Effects (D x TS)</td>
<td>2</td>
<td>545466.16</td>
<td>3.25</td>
<td>.043</td>
</tr>
<tr>
<td>Explained</td>
<td>5</td>
<td>498420.38</td>
<td>2.973</td>
<td>.015</td>
</tr>
<tr>
<td>Residual</td>
<td>98</td>
<td>167625.68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>183683.68</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As seen in table 2, the interaction term between dependence and dependency threat severity was statistically significant. This finding supports hypothesis 1. In order to fully determine if, when leaders are highly dependent on direct reports, their pay allocation decisions are directly related to the severity of direct reports’ threats to the dependence relationship (i.e., test hypothesis 2), the interaction term from the previous ANOVA had to be broken down into simple effects; the effects of dependency threat severity had to be determined for each level of dependence. Two separate one-way ANOVAs, one for high dependence and one for low dependence conditions, were performed. Table 3 contains the results of this analysis.

Table 3: Results of One-Way ANOVAs of Dependency Threat Severity on Merit Pay Allocation Decisions for Each Condition of Dependence

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>DF</th>
<th>MS</th>
<th>F</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Dependence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>2</td>
<td>990557.51</td>
<td>4.86</td>
<td>.012</td>
</tr>
<tr>
<td>Within Groups</td>
<td>52</td>
<td>204007.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Dependence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>2</td>
<td>72088.69</td>
<td>5699</td>
<td>569</td>
</tr>
<tr>
<td>Within Groups</td>
<td>46</td>
<td>126489.72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As seen in table 3II, the effects of dependency threat severity on pay allocation decisions are significant when dependence is high, but not when dependence is low, just as expected. This provides additional support for the effects of threat severity on the pay allocation decisions of leaders who are highly dependent on direct reports who threaten the dependence relationship.

**DISCUSSION AND CONCLUSION**

The purpose of this study was to investigate how dependence relationships and threats to those relationships are related to one another and how these variables are useful in explaining leaders' allocations of resources to direct reports, particularly in a pay allocation context. The specific research issues addressed in this study were: 1) the interactive effects of dependence and dependency threat on leaders' pay allocation decisions; and 2) the linear effects of the severity of direct report threats on leaders' pay allocation decisions for direct reports upon whom they are highly dependent. In this study, there was empirical support for both research questions.

Overall, the results of this study provide evidence that, under certain conditions, leaders' pay allocation decisions can be influenced by direct reports. Direct report threats had significant effects on leaders' pay allocation decisions when the leader was highly dependent on the direct report. These findings replicate those of previous research (Bartol & Martin, 1990; 1989). In addition, the direct relationship between the severity of the direct report's threat and the amount of pay allocated was supported. This is a unique contribution of this work, as it is the first study to include several levels of threat severity; allowing the investigation of its linear effects on pay allocation decisions.

The practical implications derived from this study apply to direct reports and to organizations. Direct reports are given information regarding the types of behaviors effective in influencing their leaders and organizations are given information which would allow them to better understand the resource allocation decisions that are made by their leaders. More specifically, doing the things necessary to create dependence and threatening the dependency relationship once established were the behaviors found to be effective. Although most of the factors which increase the amount of dependence a leader has on a direct report are situational, direct reports can increase the amount of dependence the leader has on them by increasing their performance and by establishing connections to powerful others in the organization (Kanter, 1977). Direct reports wishing to gain large resource allocations from their leaders must not only create a situation in which the leader is dependent on them, but must also threaten the dependency relationship. Direct reports need to be certain the influence attempt will be perceived in the manner intended. Sometimes, there are negative consequences associated with the use of more severe influence attempts (Freedman, 1978; Kotter, 1978; Thacker & Wayne, 1995; Wortman & Linsenmeier, 1977). Finally, direct reports need to be aware that certain allocators do not respond to any issues other than performance when making pay allocation decisions. With these allocators, direct reports would be wise to avoid any type of influence attempt other than providing the allocator with rational, performance-based reasons behind their request for a pay increase. Therefore, deciding upon an appropriate tack should be exercised with care.

Organizations need to understand that when making pay allocation decisions, their leaders may be influenced solely by direct report performance or by the existence of a threatened dependency relationship between the leader and a direct report. Depending on the circumstances, one may be encouraged over the other. For example, if the culture was built on "fair and equitable treatment for all", then the organization would probably want to encourage allocators to focus solely on performance. On the other hand, if the organization was experiencing high employee turnover and tight labor market conditions, it might want to encourage its leaders to do whatever was necessary to retain critical employees.

Future research on the dependence-dependency threat interaction might begin to look at several dimensions of dependency threats besides the severity dimension investigated in this study. Such dimensions include threat type, implicit-explicit nature of threats, threat legitimacy, source credibility, frequency of threat behavior, and number of others involved. Research is needed which examines the effects of different types of threats on leaders' resource allocation decisions. For example, differences in the resulting allocations depending on whether the direct reports use influence attempts such as threats to go above the leader's head to a higher source in the organization versus threatening to quit need to be identified. The implicit versus explicit nature of the threat also should be investigated. Perhaps one is more effective than another in convincing a leader to comply. Source credibility is extremely important in determining the success of the influence attempt. One may not obtain compliance from the leader if the leader does not believe the subordinate can actually carry
through on the threat. Of course, the leader may also not respond to the threat because the threat is not perceived to be legitimate. In other words, the source of the threat may be credible, but the particular threat used is not. The frequency with which the direct report threatens the dependence relationship may also determine the success of the influence attempt.

Leaders who are continually threatened by a single direct report may possibly grow tired of this behavior and eventually either not respond to the direct report or respond in a negative way. Likewise, the number of other direct reports who also threaten the leader may determine the success of the influence attempt. There are limited resources to be distributed and the leader may not be able to comply with several requests for significant increases because, as more money is allocated to one direct report, it leaves less money to be allocated to the others.

Other issues for future research pertain to the relationship between the allocator and the direct report that is making the threat. As was indicated previously, some allocators do not look beyond performance when making merit-based allocations; others are more susceptible to “outside” influences and threats from direct reports. Therefore, the effects of the personality of the allocator should be investigated. Also, the nature of the relationship between the allocator and direct report making the threat should be investigated. Seemingly, the better the relationship between the two parties, the more likely the influence attempt by the direct report will be successful. Leader-Member Exchange (LMX) theory (Graen & Schiemann, 1978) proposes that a leader establishes special relationships with a small group of followers (the “in-group”) that benefit greatly from the relationship, while the remaining followers (the “out-group”) get fewer rewards, such as the leader’s time, attention, and critical resources controlled by the leader.

The current study has several limitations that need to be addressed. First, although this study looked at the pay allocation decisions of practicing managers, it is still considered a laboratory experiment; therefore, the generalizability of the results comes into question. For example, in this study, the subjects (leaders) did not have any contact with the hypothetical direct reports. Therefore, there is no history of a relationship between them. Because of the lack of interaction between the leader and direct report, there were also no organizational ramifications for the leader complying with the focal direct report’s request or denying it. In organizations, leaders have to live with their decisions. They interact with direct reports on a daily basis. They more than likely would have to justify any recommendations to their superiors. These conditions did not exist in the present study.

Another possible issue affecting generalizability may be related to the allocator’s perceptions of being threatened. It is entirely possible that some allocators may not respond to certain types of influence attempts. More specifically, those with previous allocation experience may have seen direct reports in the past threaten certain actions and then not follow through. In a sense, these “experienced” allocators become “immune” to certain forms of threats and only respond after the threat passes a certain “threshold”. In this study, analyses of the manipulation checks revealed that “experienced” allocators perceived the high threat severity condition to be significantly more severe than the medium threat severity condition, but did not perceive any differences between the medium and low threat severity conditions. On the other hand, “inexperienced” allocators perceived the medium threat severity condition to be significantly more severe than the low threat severity condition, but did not perceive any differences between the medium and high threat severity conditions. Of course, while plausible, this hypothesis was not tested and therefore remains speculation. It warrants further investigation in future research.

Other limitations to this investigation involve context issues. The current study was conducted in a banking context. Pay allocators from other industries and backgrounds need to be examined. For example, as was discussed previously, possessing specialized skills is one factor that may make a leader more dependent on a particular direct report. Certain industries (e.g., biotech or public accounting) have a greater proportion of jobs which require more specialized skills than other industries (e.g., quick-service restaurants or retail). The relationships found in the current study may still hold (or maybe even found to be stronger). Dependence and dependency threat issues deserve further attention. In this study, leaders’ pay allocation decisions were significantly affected when the leader was dependent on the direct report and when the direct report threatened the dependence relationship. In addition, under high dependence conditions, the more severe the dependency threat, the larger the amount allocated. However, it appears that perhaps some leaders are not as susceptible to influences outside of those warranted by the design of the pay allocation system. Those leaders that are susceptible to outside influences may also vary in their susceptibility to attempts by direct reports to influence their decisions. Possibly, experienced allocators are not influenced by the same type of attempts as
inexperienced allocators. More work is needed in these areas in order to gain a more complete understanding of leaders’ resource allocation behavior.

REFERENCES


Mark Fulford is an associate professor of management at University of Central Missouri. He received his Ph.D. in organizational behavior/human resource management from Indiana University. His current research interests include the practical analysis of managerial behaviors on employee behaviors and firm performance. He has published in Journal of Managerial Issues, Entrepreneurial Executive, Journal of Human Resources in Hospitality & Tourism, and Journal of Small Business Management, among others.