THE EFFECTS OF PAY DISPERSION AND WORK-UNIT DEMOGRAPHY ON
EMPLOYEE TURNOVER

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Abstract

Scholars have long recognized that individuals compare their rewards to those received by similar others and that satisfaction is determined, in part, by perceptions of (un)fairness that arise from these comparisons. Extensive research has also found that individuals frequently select others as pay referents who share the same race and the same gender and that pay satisfaction is affected more by within-category differences than cross-category differences, suggesting that demographic similarity strongly affects equity perceptions. Leveraging these insights, we examine whether the proportion of others in one’s work unit who are of the same race or gender moderates the relationship between horizontal pay dispersion and voluntary turnover. Based on a unique, single-firm sample of workers employed by a Fortune 50 organization, the results show that the relationship between pay dispersion and turnover is moderated by the degree of racial and gender similarity that workers share with work-unit peers, such that the positive relationship between pay dispersion and turnover becomes stronger when work-unit demographic similarity is higher. Supplemental analyses suggest that this pattern holds for males, females, and whites but not for non-whites. The analyses also indicate that our findings most likely result from the propensity of males, females, and whites to compare themselves to same-category others.