

# Addressing Internal Stakeholders' Concerns: The Interactive Effect of Perceived Pay Equity and Diversity Climate on Turnover Intentions

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Received: 13 March 2014 / Accepted: 21 July 2015 / Published online: 12 August 2015  
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**Abstract** Stakeholder theory has received greater scholarly and practitioner attention as organizations consider the interests of various groups affected by corporate operations, including employees. This study investigates two dimensions of psychological climate, specifically perceived pay equity and diversity climate, for one such stakeholder group: racioethnic minority professionals. We examined the main effect of U.S. professionals' of color pay equity perceptions, and the influence of perceived internal and external pay equity on turnover intentions. We also investigated the interactive effect of perceptions of pay equity and diversity climate on turnover intentions. Results indicated that pay equity perceptions were negatively associated with turnover intentions. Our findings showed that perceptions of internal pay equity influenced turnover intentions but perceptions of external equity did not. Further, perceptions of pay equity and the diversity climate interactively influenced turnover intentions. Participants who reported an unfavorable diversity climate and a low perceived pay equity were most likely to report turnover intentions. Simple slope analysis for moderate pay equity also was significant. When perceived pay equity was high, favorability of the diversity climate did not affect turnover intentions. The findings have useful practical implications. When pay was perceived as

equitable, participants appeared to pay less attention to the diversity climate. Employee pay equity perceptions may be malleable; sharing information with employees about pay levels during performance reviews may enhance perceptions of pay equity. The findings suggest that, consistent with stakeholder theory, organizations should attend to perceptions of both pay equity and diversity climate when striving to minimize the turnover intentions of professionals of color.

**Keywords** Corporate social responsibility · Perceived pay equity · Diversity climate · Turnover intentions · Professionals of color

## Abbreviations

CSR Corporate social responsibility  
DC Diversity climate  
TI Turnover intentions

Stakeholder theory has received greater scholarly and practitioner attention as employers consider the interests of various groups affected by corporate operations, including employees. In recognition of the stakeholder interests of racioethnic minority group employees, many U.S. organizations espouse a positive diversity climate, as evidenced by both the plethora of diversity-related information on their websites and the increasing number of chief diversity officers (Anderson and Billings-Harris 2010). However, minority employees, the sample for this study, tend to turn over at higher rates than majority employees (Hofhuis et al. 2014; Robinson and Dechant 1997; Shurn-Hannah 2000). A little is known about how the strategic management of diversity, espoused or enacted, contributes to building an

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organizational environment that is effective at retaining this important stakeholder group (Chavez and Weisinger 2008). To put our research in context, we present corporate social responsibility within the frame of employer obligations, including provision of an affirming diversity climate and fair compensation of employees next.

A recent approach for considering the responsibilities of the firm toward stakeholder parties (Jamali 2008) is the theory of corporate social responsibility (CSR) (Carroll 1991; Schwartz and Carroll 2003). Corporate social responsibility (CSR) has emerged as organizational leaders have accepted a growing obligation to consider the interests of their organizations' stakeholders (Jamali 2008). This model identifies three dimensions of responsibility: economic, legal, and ethical. Economic responsibility is the obligation to be profitable to ensure the long-term survival of the firm and employment for workers. Legal responsibility includes the duty to do what is legally required, that is, to obey the laws in locales where the organization conducts business. Ethical responsibility involves the obligation to behave in such a way as to respect the concerns and rights of stakeholders and to attend to the ethical social norms concerning behavior in the locations where an organization operates. Ethical responsibility includes an obligation to demonstrate corporate behavior that is "moral, and doing what is right, just and fair" (Jamali 2008, p. 215). Concerns and interests of stakeholders, including employees, deserve attention, and address as part of ethical organizational responsibility.

CSR also includes a duty of care toward stakeholder groups (Simmons 2004). Longo et al. (2005), in their grid of values, include social equity in treatment of employees, particularly with respect to equitable compensation for their inputs to the organization. Cropanzano et al. (2007) argue that organizations have a moral obligation to honor the ethical relationship between employer and employee. They state that, "Organizational justice—members' sense of the moral propriety of how they are treated—is the 'glue' that allows people to work together effectively" (p. 34). The focus in this study is on the ethical responsibility dimension of CSR, because it is encompasses most closely, social norms of equity and fairness.

The purposes of this research are, first to explore an important contextual aspect of the ethical dimension of corporate social responsibility, specifically pay equity perceptions of minority employees. We focus on the relationship between perceived pay equity for U.S. professional employees of color, and an important employee outcome, turnover intentions. We propose and test hypotheses concerning the influences of internal versus external perceptions of pay equity on turnover intentions. We also address a second aspect of the employer duty of care: diversity climate for minority employees. Preliminary

evidence suggests that an affirming diversity climate has a negative relationship with turnover intentions for racioethnic minority employees (Buttner et al. 2010; McKay et al. 2007), as we will detail in the hypothesis section. It is possible that perceptions of pay equity and diversity climate have a multiplicative effect on turnover intentions. Accordingly, we examine the interactive effect of perceptions of pay equity and the diversity climate on turnover intentions for professionals of color.

This research makes several contributions to the CSR literature. The results provide evidence about one aspect of the ethical dimension of CSR, namely the effect of perceptions of pay equity on employee of color turnover intentions. Further, evidence of the relative importance of perceived internal and external pay equity on turnover intentions is identified. Finally, evidence is provided that there is an interactive effect of perceptions of pay equity and diversity climate on turnover intentions. We now turn to research on the relationship between turnover intentions and actual turnover as well as the organizational costs associated with employee turnover to demonstrate the importance of this issue to firm performance.

## Literature Review and Hypotheses

Prior research has demonstrated that turnover intentions are a predictor of actual turnover (Hom and Griffeth 1995; Hom and Kinicki 2001). Hom et al. (1992) and Griffeth et al. (2000) conducted comprehensive meta-analyses of turnover antecedents and found that turnover intention (a cognition) was one of the strongest predictors of actual turnover (a behavior). In an effort to manage employee costs, organizations, particularly those that employ professionals, seek to minimize turnover. When professionals leave, they take with them the organizational knowledge and human capital developed while on the job. In addition, there are organizational costs associated with work interruptions and loss of institutional knowledge.

Turnover among minority employees is an especially important organizational issue because minority employees have been found to have higher turnover rates. For example, Hofhuis et al. (2014) found that minority employees in public service in the Netherlands reported higher rates of voluntary turnover than did their majority colleagues. Shurn-Hannah (2000) and Robinson and Dechant (1997) report that minority group member turnover is significantly higher than for majority group colleagues in the U.S. Thus, research examining the relationship between diversity climate and employee turnover intentions, the latter a cognition that has been shown to be an antecedent to actual turnover (Mobley et al. 1979), can be useful for managers seeking to

minimize turnover, workplace disruption, and the associated costs of both. In a study of the cost-effectiveness of diversity policies in the EEC, more than 40 % of reporting companies with active diversity policies reported a reduction in labor turnover rates (European Commission on Employment and Social Affairs 2003). Understanding what drives organizational affiliation and turnover among minority group members is a particularly important issue for managers generally and for human resource professionals specifically. We now provide a brief review of social identity theory, equity theory, relative deprivation theory, and the literature on diversity climate which serve as the theoretical foundation for this research.

### Social Identity Theory

Social identity theory suggests that individuals have a predisposition to classify themselves and others into various social categories (Ashforth and Mael 1989). Further, an individual's identity is derived from membership in groups comprised from those social categories (Tajfel and Turner 1986). Individuals derive meaning from their various group memberships and integrate these meanings and value into their identity (Haslam and Ellemers 2011). Haslam (2004) argues that to understand the perceptions of individual employees in an organizational context, it is necessary to also understand how their social identities, that is, their understanding of themselves in the context of their group memberships, influence those perceptions. In two studies of ethnic identity awareness, Phinney (1992) and Utsey et al. (2002) found that ethnic minority members had a stronger sense of ethnic identity than did White participants in the U.S. Evaluation of one's group, in relation to relevant other groups, generates either affirming social comparisons or discordant ones. Individuals are motivated to maintain a positive self-concept in intergroup settings. Thus, minority group employees may be more sensitive to treatment issues with respect to pay and other conditions of employment, relative to their majority group colleagues. Minority employees may seek information about and attend to pay differences between their and their majority colleagues' pay since relative pay levels provide an indicator of the value placed on the employee's contribution to the organization. Based on social identity theory, we propose that pay equity will be salient. We next turn to a review of the relevant literature on equity theory.

### Equity Theory

Equity theory, developed by Adams (1963) posits that employees are sensitive to justice and equity in social exchanges, including pay. Equity theory derives from the

Aristotean<sup>1</sup> theory of merit; that is, that people evaluate their inputs and outcomes on the basis of what each individual has earned (Cuguro-Escofet and Fortin 2014). Accordingly, outcomes should be based on role-related performance rather than on other factors such as demographic characteristics including race. Cropanzano et al. (2007) argue that rather than some absolute sense of what is just, what people *believe* is just is what matters, because those perceptions form the basis for subsequent attitudes (such as turnover intentions), decisions, and actions. Thus, equity theory evolving from a foundation of merit and fairness, can be seen as aligned with the ethical dimension of CSR, where rewards are earned, by exchanging inputs for valued organizational outcomes, rather than bestowed to certain groups for attributes that are not work related. Equity theory is consistent with the ethical dimension of corporate social responsibility which addresses the organization's responsibility to treat employees with fairness (Bynum et al. 2012; Fassin 2012; Harrison and Freeman 1999).

In line with social identity theory, Adams (1963) proposes that an individual's perceptions of equity are a function of social learning, values, and norms learned from his/her social group: "Each individual has a history of learning but to the extent that he learns from people sharing similar values, social norms, and language, that is, to the extent to which he shares the same culture, his psychological reactions will be similar to theirs" (p. 425). Employees of color in the U.S. may be particularly sensitive to fairness issues as a function of the country's racial history, to which we turn next.

In the U.S., history is replete with accounts of racial discrimination in pay and other conditions of employment. In spite of the Civil Rights Act of 1963 and equal employment regulations, the number of claims filed with the Equal Employment Opportunity Commission (EEOC) continues to grow. In 2012, there were 33,512 racial discrimination claims filed with the EEOC, a 15 % increase from 2007 (EEOC 2013). Thus, employees of color may hear and/or read about past and current accounts of racial discrimination in the press which may heighten their sensitivity to issues of employment, specifically pay equity as a function of an important dimension of their social identity (i.e., race). Social identity theory provides theoretical support for this line of reasoning, as employees of color may be attentive to social comparisons when evaluating the fairness of their pay. Employees of color may be responsive to pay (in)equity, as relative deprivation theory, suggests. We now turn to relative deprivation theory.

<sup>1</sup> Internet Encyclopedia of Philosophy. (undated). Aristotle (384-322 B.C.E.). Available at <http://www.iep.utm.edu/aristotl/#H7>. Accessed 27 Oct 2014.

Building on equity theory, relative deprivation theory suggests that when individuals compare their (desired) outcomes with those of relevant others and perceive that there is a discrepancy, they may feel deprived under certain conditions (Crosby 1976, 1984; Olson et al. 1995). Crosby (1976) posits that employees will feel deprived when they desire the outcome, perceive that referent others have that outcome, and think it is feasible to obtain the same outcome. Further, employees do not see their failure to have the outcome as their fault. Applying that line of reasoning to the social identity of minority employees, if a professional of color who desires a higher level of pay, who perceives that s/he is being paid less than a comparable colleague, believes the organization could pay him/her equally and that the pay inequality is not his/her fault, then that employee may feel relatively deprived. Relative deprivation has been shown to lead to feelings of resentment, anger, dissatisfaction, unhappiness and perceptions of unfairness, or inequity (Bernstein and Crosby 1980) and consequently the employee may intend to remove him/herself from the situation (i.e., plan to turn over, Pettigrew 2002). According to equity theory and relative deprivation theory, employees will be motivated by the feelings of deprivation and the consequent resentment, anger, and so forth to reduce perceived pay inequity by making behavioral changes to increase outcomes. As Pettigrew (2002) notes, one possible response is to conclude that a fair exchange is not possible in the current organization and therefore to develop turnover intentions in an effort to seek greater outcomes, and thereby a more equitable exchange, in a different organization. Empirical research has indicated that perceived pay equity influences a number of important employee outcomes, including pay level satisfaction (Brown 2001; Dreyer 1981), affective organizational commitment (Day 2012), absenteeism (Torre et al. 2015), and voluntary turnover intentions (Summers and Hendrix, 1991). Based on social identity theory, relative deprivation theory and equity theory and the related empirical findings presented above, we propose the following hypothesis:

**H1** Perceived pay equity will be negatively related to turnover intentions of employees of color.

As we have noted, pay is a central aspect of the employer–employee relationship. Adams (1965) defined the perception of equity as “the extent to which an employee perceives he/she is treated fairly relative to comparable others inside (internal equity) and outside (external equity) the organization.” (p. 335). Thus, internal pay equity refers to comparisons an employee makes of his/her pay with referent other(s) within the organization, while external equity refers to the comparison an employee

makes with referent other(s) in comparable positions outside the organization.

Prior research has indicated that employees use internal as well as external referents in determining the fairness of their pay (Brown 2001). Dreyer (1981) and Shore et al. (2006) found that both perceived internal and external pay equity influenced pay satisfaction. Accordingly, minority employees may use referent others within their institution as well as referent others outside in determining the fairness of their pay. Internal and external pay comparisons may influence turnover intentions for several reasons. We propose that employees may have access to information about pay within their organizations. They also may have information about the performance of colleagues and thus are able to make evaluations of internal equity. These internal equity judgments are likely to be especially salient to employees since they are making equity assessments about proximal colleagues. Similarly, information about pay for comparable colleagues at other organizations provides market data about potential value a different employer might place on the focal employee, in a sense a measure of the employee’s market value, and thus would be salient as well. To test our propositions, and to thereby tease out some of the underlying mechanisms for the results of our first hypothesis, we test these proposals with the following hypotheses:

**H2** Perceived internal pay equity will be negatively related to turnover intentions of employees of color.

**H3** Perceived external pay equity will be negatively related to turnover intentions of employees of color.

Having established that perceived pay equity is expected to be negatively related to turnover intentions, we next focus our discussion on the diversity climate. Simons et al. (2007) and other recent research suggest that employees of color also will be sensitive to the diversity climate, an argument that we expand upon in the next section.

## Diversity Climate

Diversity climate is defined for this paper as “employee behaviors and attitudes that are grounded in perceptions of the organizational context related to women and minorities” (Mor Barak et al. 1998, p. 83). Scholars have developed several assessments of diversity climate in past decades. In perhaps the first study of diversity dimensions, Kossek and Zonia (1993) operationalized diversity climate as the extent to which organizational members generally value efforts to increase representation of minority groups and believe that minority group members are as qualified as White men. A few years later, based on social identity and

intergroup relations theories, Mor Barak et al. (1998) developed the diversity climate perceptions scale (DC) to assess fairness and inclusiveness with respect to diversity in organizations. Items in the organizational fairness subscale focus on issues pertaining to the fairness of various human resource and administrative policies and practices, including hiring, promotion, performance evaluation, and feedback with respect to gender, ethnicity, religion, and age. The organizational inclusiveness subscale addresses such topics as organizational support of diversity networks, mentoring programs, and adequacy of diversity training programs. The DC Scale (Mor Barak et al. 1998) assesses the extent to which an organization is perceived to provide an inclusive and fair climate. Thus, the scale's purpose is consistent with the ethical dimension of the corporate social responsibility construct which addresses the need for organizations to respect the concerns and interests of stakeholders, including employees.

Diversity climate also may serve as an important component of the psychological climate. In their review of organizational and psychological climate, James et al. (2008) point out that psychological climate perceptions "assess the significance and meaning of work environments to individuals" (p. 8) in terms of how beneficial or detrimental the conditions are to the employee, while organizational climate refers to commonly shared individual perceptions of the work environment. In this study, we focus on the perceptions held by individual employees of color, that is, their psychological climate perceptions. Diversity climate may be particularly salient for the expectations and career experiences of employees of color as a dimension of psychological climate, as the next section details.

### The Influence of Diversity Climate on Employee Outcomes

We return to social identity theory to further build the argument that diversity climate may influence employee outcomes. Recall that individuals' identities are tied to group memberships (Ashforth and Mael 1989; Tajfel and Turner 1986). Further, minority group members tend to have a stronger sense of ethnic identity (Phinney 1992; Utsey et al. 2002). As Simons et al. (2007) have demonstrated, Black participants were more sensitive to managerial behavior toward them than were members of other groups. Employees whose cultural backgrounds are different from the dominant cultural attitudes and values in the organization may perceive the organization's policies and practices as less supportive and positive. For example, Mor Barack et al. (1998) found that Caucasian women and members of other racial/ethnic groups in the U.S. perceived their organization as less fair than did Caucasian men.

When organizational members feel a lack of support from their organizations, they are more likely to leave (Hui et al. 2007; Rhodes et al. 2001). The diversity climate may convey to racioethnic minorities, the importance the organization places on their membership in the organization. When they perceive an unfavorable climate, they may perceive that the organization does not value their contributions. One consequence may be that turnover intentions are increased.

The relationship between diversity climate and employees' attitudes and outcomes in the U.S. has been relatively well established by earlier studies. Thomas and Wise (1999) reported that racial/ethnic minority group members were more sensitive to the diversity climate than were Caucasian men. Hicks-Clarke and Iles (2000) found that diversity climate perceptions affect employees' work outcomes including organizational commitment and job satisfaction. However, their study design grouped White and non-White participants' perceptions together and in contrast to the present study, they did not evaluate the effects of diversity climate on turnover intentions. Buttner et al. (2010) found that a positive diversity climate was associated with higher organizational commitment and lower turnover intentions. McKay et al. (2007) used an abbreviated version of Mor Barak et al. (1998) DC measure to examine diversity climate perceptions among managerial employees in a large retail organization. They also found that a positive diversity climate was associated with higher organizational commitment and with lower turnover intentions, particularly for Black managers. Stewart et al. (2011) found that ethics climate moderated the diversity climate–turnover intentions relationship. While these studies have demonstrated a relationship between diversity climate and organizational outcomes, it is noteworthy that few have sought to explore the "black box" (Cassell et al. 1997; Lawrence 1997) of organizational demography by investigating the underlying psychological mechanisms for these effects. A notable exception is the work of Hofhuis et al. (2014) who found that minority employees reported more negative social interactions and fewer opportunities for career advancement, resulting in higher levels of voluntary turnover intentions in the Netherlands. In this study, we consider one such black box mechanism, perceptions of pay equity, as an important explanatory variable for the diversity climate to employee outcome (e.g., turnover intentions) relationship.

While the diversity climate and equity constructs fall in a related theoretical domain, they describe different phenomena. Diversity climate pertains to perceptions of fairness in organizational policies and practices and feelings of inclusion, while equity theory pertains to employees' perceptions of the fairness of their *pay* in relations to relevant colleagues within their unit and across units in similar

organizations. Diversity climate has been shown to be particularly salient to minority employees and to negatively affect employee outcomes. Similarly, according to equity theory, minority employees may be sensitive to equity in pay in relation to that of their majority colleagues. Together, the two variables are proposed to have an interactive effect such that minority employees who perceive a favorable diversity climate and equitable pay would be least likely to plan to leave the organization, while employees of color who perceive an unfavorable diversity climate and inequitable pay would be most likely to plan to leave the organization. Thus, based on social identity and equity theory which predict a negative relationship between perceived pay equity and turnover intentions and a negative effect of diversity climate on turnover intentions, we propose and test the following interaction hypothesis:

**H4** Perceived pay equity and diversity climate will have an interactive effect on the turnover intentions of professional employees of color. Turnover intentions will be lowest when pay is perceived as equitable and diversity climate is viewed as favorable (more fair and affirming). Turnover intentions will be highest when pay is perceived as inequitable and diversity climate is perceived to be unfavorable (less fair and affirming).

Building on this line of reasoning, we advance two additional hypotheses. First, according to equity theory, employees compare their pay with references inside the firm (perceived internal pay equity). They also assess the fairness of the diversity climate and both have been shown to be associated with turnover intentions. Building on our earlier foundation for Hypothesis 4, it is possible that perceived internal pay equity may interact with diversity climate to influence turnover intentions. Second, again in line with equity theory, employees make assessments of external pay equity as well as of the diversity climate of their organization. It is possible diversity climate and perceived external pay equity will interactively influence turnover intentions. We propose and test the following hypotheses:

**H5** Perceived internal pay equity and diversity climate will interact such that employees who perceive an affirming diversity climate and internal pay equity will be the least likely to report turnover intentions, while employees who perceive an unfavorable diversity climate and internal pay inequity will report the highest turnover intentions.

**H6** Perceived external pay equity and diversity climate will interact such that employees who perceive an affirming diversity climate and external pay equity will be the least likely to report turnover intentions, while employees who perceive an unfavorable diversity climate and external pay inequity will report the highest turnover intentions.

## Methodology

### Sample

The business school faculty professional labor market was sampled for this research. Studying professional employees is important because workers in knowledge industries play a critical role in creating value added to organizations (Flood et al. 2001). Faculty of color who were alums of the Ph.D. Project were solicited by email to participate in the study. The Ph.D. Project was established in 1994 to increase the racioethnic diversity of U.S. business school faculties. The networking organization provides mentoring, support, and guidance for minority business doctoral students (Ph.D. Project 2014). Participants in the current study are Black, Hispanic, and Native American faculty who participated in the Ph.D. Project during their graduate school programs in prior years or who became members in order to mentor aspiring minority faculty members. Of the 662 faculty of color in the database with valid email addresses at the time of data collection, 182 (27.5 %) responded. Average age of the respondents was 45.5 years ( $SD = 9.4$ ). Participants had been in their current position an average of 6.9 years ( $SD = 6.5$ ) when they completed the survey. Sixty-two percent of the sample were male and 38 % were female. Sixty-four percent of the respondents were African American, 21 % Hispanic, 4 % Asian American, 5 % Native American, 5 % were White non-Hispanic, and 1 % were in the “other” category. Respondents who reported their ethnicity as African American, Hispanic American, Native American, or non-U.S. born were included in the sample. Respondents who indicated their ethnicity as White non-Hispanic or did not indicate ethnicity were excluded from the analysis, because they did not fit the criteria for inclusion: being a member of a racioethnic minority group. The survey instrument was lengthy, taking about 20–25 min to complete. The scales measuring the variables which were the focus of this study were near the end of the survey. As a result, there was attrition in the response rates resulting in missing data on the variables of interest. Respondents who failed to provide complete responses for all items in the focal scales in the current study were deleted. Comparison of the respondents to the non-respondents did not show any significant differences on age ( $F = 2.76, p < .10$ ), sex ( $\chi^2 = .02, p < .52$ ), ethnicity ( $\chi^2 = 2.47, p < .78$ ) or position ( $\chi^2 = 1.18, p < .95$ ). Our final sample consisted of 127 respondents.

For position, 21 % indicated they were professors, 22 % were associate professors, 52 % were assistant professors, 2 % were administrators, 2 % were lecturers/instructors, and 1 % classified themselves as fitting into an “other”

position category. Forty-one percent indicated they were employed at doctoral-granting institutions, 13 % were at non-doctoral-granting universities, and 46 % were at four-year colleges. Twelve percent were at historically Black colleges or universities (HBCUs) and 88 % were at historically White institutions. Among the respondents, 24 % were in accounting, 10 % in finance, 11 % in information services, 35 % in management, and 20 % were in marketing. In the Ph.D. Project population of faculty of color, 28 % were in accounting, 9 % in finance, 13 % in information services, 31 % in management, and 19 % were in marketing. Comparison of the sample to population characteristics indicates the sample was slightly over-represented in management and slightly under-represented in accounting. Analysis of differences in responses to the variables, diversity climate ( $F = .00, p < .95$ ), perceived equity ( $F = .21, p < .65$ ), and turnover intentions ( $F = .03, p < .88$ ) revealed no significant differences between the accounting and management respondents as compared to the rest of the sample.

## Procedure

Approximately 1 week before sending out the online survey, we emailed potential participants announcing the survey and indicating that the research was sanctioned by the Ph.D. Project. We then sent the survey from a university server to the email address provided to us by the Ph.D. Project. We designed our administration strategy to verify the accuracy of the email addresses. Of the 685 email addresses on the list, 677 were valid addresses. Approximately 2 weeks after the initial mailing, we sent a follow-up email and survey to non-respondents again inviting them to complete the survey. In the survey introduction, potential participants were told that their participation was voluntary and that such participation constituted informed consent. The study and the survey were approved by the university's institutional review board prior to administration. The survey was completed online and data entered by participants were stored on a secure server.

## Measures

Perceptions of pay equity (PE). Perception of pay equity was assessed with a 3-item scale developed by the authors ( $\alpha = .88$ ). The items assessing equity perceptions were: "My salary is fair given my qualifications for my position." (internal input–outcome equity), "My salary is fair in relation to all other faculty in my business school." (internal equity), and "My salary is fair in relation to faculty with comparable qualifications at other institutions." (external market equity). Participants indicated their agreement to each statement with a 5-point Likert

scale from 1 = strongly disagree to 5 = strongly agree for items on this and the following scales.

### *Diversity Climate Scale*

The diversity climate (DC) measure ( $\alpha = .89$ ) was composed of the ten-item organizational diversity climate scale developed by Mor Barak et al. (1998). Sample items were: "I feel I have been treated differently here because of my race, sex, religion, or age." (Reverse-scored) and "Department Heads here have a track record of hiring and promoting faculty members objectively regardless of their race, sex, religion, or age."

### *Turnover Intentions*

Turnover intentions (TI) were measured with a two-item scale ( $\alpha = .85$ ) adapted from Cammann et al. (1979), as presented in Cook et al. (1981). The items were adapted to better fit the university environment as follows: "It is likely that I will leave my employment with this university within a year" and "I intend to keep working for the university for at least the next 3 years" (reverse-scored).

## Control Variables

Respondent racioethnicity, age, academic rank, and sex were included in this study as control variables. Participant racioethnicity was coded as a series of dummy variables where the participant's self-identified racioethnicity was coded with a value of 1 and other ethnic classifications were coded with a 0. Racioethnicity was coded as a set of four dummy variables: African American, Hispanic, Native American, and non-U.S. born. Sex was coded as 0 = male and 1 = female.

## Analysis

To address our research questions and test our hypotheses, we undertook correlation analysis, factor analysis, and hierarchical regression analyses of the study variables. We conducted a factor analysis of the independent variables using principal components with varimax rotation to determine whether the independent variables, perceived pay equity and diversity climate would load onto two separate factors. The factor analysis indicated that the three items of the perceived pay equity scale loaded appropriately onto the perceived pay equity scale, as shown in Table 1. For the diversity climate scale, all but 2 of the 10 items loaded cleanly onto the diversity climate scale. "There is a mentoring program in use here that identifies and prepares all faculty of color and White female faculty for promotion" and "The university spends enough money

**Table 1** Factor analysis of diversity climate and perceived pay equity scales

Item	Factor 1	Factor 2
Diversity climate scale		
1. I feel I have been treated differently here because of my race, sex, religion, or age	.57	.26
2. Department chairs here have a track record of hiring and promoting faculty members objectively regardless of their race, sex, religion, or age	.85	.17
3. Department chairs here give feedback and evaluate faculty members fairly, regardless of the faculty member's ethnicity, gender, age, or social background	.92	.14
4. Department chairs here make promotion and tenure decisions fairly, regardless of such factors as the faculty member's race, sex, age, or social background	.90	.12
5. Department chairs interpret human resource policies (such as sabbaticals) fairly for all faculty	.87	.14
6. Department chairs give assignments based on the skills and abilities of faculty	.85	.14
7. Department chairs here encourage the formation of faculty network support groups	.46	.41
8. There is a mentoring program in use here that identifies and prepares all faculty of color and White female faculty for promotion	.13	.52
9. The "old boys network" is alive and well here	.48	.28
10. The university spends enough money and time on diversity awareness and related training	.33	.47
Perceived pay equity scale		
11. My salary is fair given my qualifications for my position	.13	.86
12. My salary is fair in relation to all other faculty in my business school	.23	.75
13. My salary is fair in relation to faculty with comparable qualifications at other institutions	.02	.89

Items 1–10 constituted the diversity climate scale. Items 11–13 constituted the perceived pay equity scale. Eigenvalues are 5.77 and 2.04 for Factors 1 and 2, respectively. Variances explained were 44 and 16 % for Factors 1 and 2, respectively

and time on diversity awareness and related training" loaded on both factors. We opted to retain these two items in the diversity climate scale as they more logically fit in that scale.

## Results

Table 2 presents the means, standard deviations, and inter-correlations among the study variables. Correlation coefficients between perceived pay equity (PE), diversity climate (DC), and turnover intentions (TI) were moderate (Cohen 1988), significant, and in the anticipated direction.

The test of Hypothesis 1, that perceived pay equity would have a negative effect on turnover intentions, was supported by the regression analysis. The base level regression, with only control variables (sex, age, racioethnicity, and academic rank) entered, was not significant ( $F = .56$ , n. s.). The full model, with PE entered

after the controls, was significant ( $F = 2.45$ ,  $p < .05$ ), with PE ( $t = -3.91$ ,  $p < .001$ ) significantly associated with TI, in support of Hypothesis 1.

The next step was to test Hypothesis 2 that perceived internal pay equity would have a negative influence on turnover intentions and Hypothesis 3 that perceived external pay equity would have a negative influence on turnover intentions. For tests of hypotheses 2 and 3, we separated out the three items in the equity scale into the two-item measure of internal equity ( $\alpha = .83$ ) and the one-item measure of external equity that comprised our three-item perceived pay equity scale. The analysis showed that, after controlling for sex, age, racioethnicity, and academic rank of the participants, perceptions of internal pay equity negatively and significantly influenced turnover intentions ( $t = -4.12$ ,  $p < .001$ ), in support of Hypothesis 2. For Hypothesis 3, the analysis showed that, after controlling for sex, age, racioethnicity, and academic rank of the participants, perceptions of perceived external equity did not influence turnover intentions ( $t = 1.41$ ,  $p < .16$ ). Accordingly, Hypothesis 3 was not supported by the results.

An intermediate test was conducted prior to testing Hypothesis 4. In this intermediate step, the intent was to establish, as was done for PE in the test of Hypothesis 1, that DC was a significant predictor of TI. Results of the regression of DC on TI, with the controls entered in the first step were significant ( $F = 2.93$ ,  $p < .01$ ) with DC a significant predictor of TI ( $t = -4.35$ ,  $p < .001$ ).

**Table 2** Correlations among the study variables

Variables	Mean	SD	(1)	(2)	(3)
Diversity climate	2.98	.91	–		
Perceived pay equity	3.05	1.34	.42***	–	
Turnover intentions	2.39	1.33	-.45***	-.34***	–

\*\*\*  $p < .0001$



The next step was to test Hypothesis 4 that PE and DC will have an interactive effect on turnover intentions of professional employees of color. A concern in regression analysis, when interaction effects are tested, is the possibility of multicollinearity that may occur because the interaction term may correlate with the variables from which it was derived. Accordingly, for the test of Hypothesis 4, we followed Aiken and West's (1991) recommendations to center the independent variables around zero by subtracting the mean from each value of the variables. We then determined whether an interaction effect was indicated by calculating the simple slopes for one standard deviation above the mean, at the mean, and one standard deviation below the mean for the predictor variables.

Hypothesis 4 tested whether perceived pay equity and diversity climate would have an interactive effect on turnover intentions such that turnover intentions will be lowest when pay is perceived as equitable and diversity climate is viewed as favorable and highest when pay is perceived as inequitable and diversity climate is perceived to be unfavorable (less fair and affirming). The base level regression, with control variables only entered, was not significant ( $F = .56$ , n. s.). In the second step, after controlling for the demographic variables and the main effects, the overall  $F$  was significant ( $F = 4.22$ ,  $p < .001$ ). The interaction of perceived pay equity and diversity climate was significant ( $t = 2.85$ ,  $p < .01$ ), in support of H4, as shown in Table 3.

The results for the interaction analysis are illustrated in Fig. 1. As the figure shows, turnover intentions were highest when the diversity climate was seen as least favorable and pay equity was perceived as low, consistent with Hypothesis 4. The simple slope analysis for low perceived pay equity was significant and in the expected direction ( $t = -3.70$ ,  $p < .01$ ). Participants who reported an unfavorable diversity climate and low perceived pay equity were most likely to report turnover intentions. The simple slope analysis for moderate pay equity also was significant ( $t = -2.25$ ,  $p < .05$ ). When perceived pay equity was high, the favorability of the diversity climate did not affect turnover intentions. We concluded from this analysis that H4 was supported at the low and moderate pay equity levels.

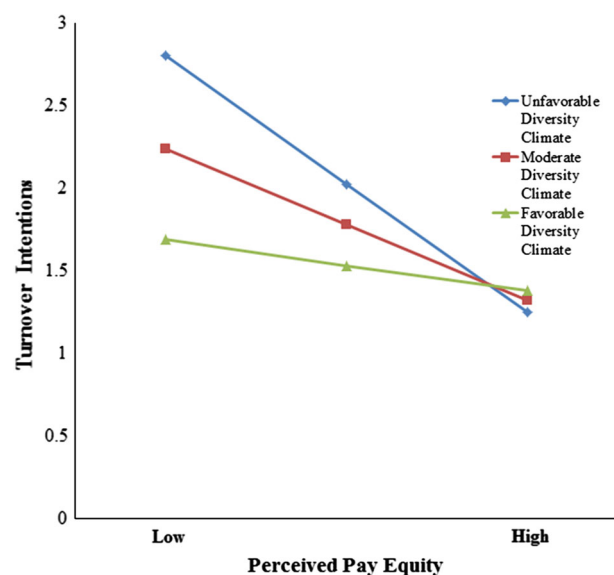
Hypothesis 5 proposed that perceived internal pay equity and diversity climate would interact such that employees who perceive an affirming diversity climate and internal pay equity will be least likely to report turnover intentions, while employees who perceive an unfavorable diversity climate and internal pay inequity will report the highest turnover intentions. After controlling for the demographic variables and for the main effects of perceived internal pay equity and diversity climate, perceived

**Table 3** Results of regression for diversity climate and pay equity on turnover intentions

	Control variables	Full model
Controls		
Sex	.05 (.02)	-.16 (-.06)
Age	.02 (.11)	-.00 (-.02)
Rank	-.03 (-.13)	-.03 (-.15)
Hispanic	.11 (.03)	.01 (.00)
African American	.06 (.02)	-.00 (-.00)
Native American	.94 (.15)	.16 (.03)
Non-U.S.	-.08 (-.01)	-.02 (-.00)
Predictor		
Diversity climate	-	-.76*** (-.33)
Pay equity	-	-.27* (-.27)
Diversity climate $\times$ equity	-	.42** (.24)
$F$	.56	4.22***
$R^2$ (adjusted $R^2$ )	.03 (-.03)	.28 (.22)

$N = 117$ . Values on left are *standardized* estimates, and values on right (in parenthesis) are unstandardized standard error coefficients

\*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$



**Fig. 1** Interaction of perceived pay equity and diversity climate on turnover intentions

internal pay equity and diversity climate interactively influenced turnover intentions ( $t = 2.97$ ,  $p < .01$ ), in support of H5. The findings suggest that supervisors of professionals of color may be able to influence their subordinates' turnover intentions by fostering a positive diversity climate and by demonstrating internal pay equity to their subordinates.

Finally, the sixth hypothesis proposed that perceived external pay equity and diversity climate would interact

such that employees who perceive an affirming diversity climate and external pay equity will be least likely to report turnover intentions, while employees who perceive an unfavorable diversity climate and external pay inequity will report the highest turnover intentions. The results of the interaction analysis were not significant ( $F = 1.71$ ,  $p < .09$ ); thus H6 was not supported.

## Discussion

The theory of corporate social responsibility posits that organizations have an obligation to consider the rights of stakeholder groups in decisions, policies, and procedures of operations. The ethical dimension establishes that within CSR, the organization has an obligation to do what is right, just, and fair with respect to its stakeholders (Jamali 2008). This study examined the ethical facets of the reciprocal relationship between organizations and minority employees with respect to the diversity climate and perceived pay equity. The results showed that both diversity climate and perceived pay equity are relevant concerns for minority professionals of color and that these variables singly and interactively influence turnover intentions.

The results of our study provide some insight into the process whereby the retention of racioethnic minority workers may be enhanced. Our findings suggest that U.S. professionals of color are attentive to perceptions of pay equity and, consistent with equity theory (Adams 1963), these pay equity perceptions are related to turnover intentions. Thus, our results are supportive of the theory, in that when professionals of color perceived pay to be equitable, turnover intentions tended to be lower. When pay was seen as inequitable, the professionals of color in this study were more likely to be contemplating leaving their job. While we did not measure perceptions of relative deprivation directly, it seems plausible, that the turnover intention is an attempt to resolve the psychological discomfort arising from the perception that the minority employee's outcomes are not equitable in comparison to relevant others' outcomes. Our findings are consistent with recent research suggesting that organizations, directly or indirectly, are seeking to address employee stakeholders concerns by establishing the diversity climate (Buttner et al. 2010; Guillaume et al. 2014; McKay et al. 2007) and working to achieve pay equity (Balassiano and Salles 2012; Day 2012; Stewart et al. 2011). Consistent with the ethical dimension of CSR, Chavez and Weisinger (2008) report that organizations continue to seek a better understanding of how to build an organizational environment that is effective at attracting and retaining minority employees. While the literature on both the attraction and the retention of minority knowledge workers is underdeveloped, insights

into how retention can be improved are the most scarce (McKay and Avery 2005).

Beyond the direct effects of pay equity, our results show that perceptions of pay equity also interact with the organizational diversity climate. When professionals of color perceived their pay as inequitable and the diversity climate as unfavorable, their turnover intentions were highest. However, when respondents perceived their pay as equitable, the perceptions of the diversity climate did not influence turnover intentions. Taken together these two findings provide insight into the black box mechanisms by which diversity climate influences turnover intentions. When fundamental aspects of the psychological contract (Rousseau 1989) such as equitable pay are violated, an unfavorable diversity climate augmented those effects. These results are further bolstered by the finding that when diversity climate is moderate for a given level of pay equity, the influence on turnover intentions is middle ground as well (see Fig. 1). Our findings add specificity to those of Hofhuis et al. (2014) who found that more general aspects of organizational culture (e.g., opportunities for career advancement) influence turnover intentions of minority employees. Consistent with Hofhuis et al. (2014), we found that fairness and inclusiveness dimensions of the *diversity* climate also influence turnover intentions for minority employees. We suggest that future studies in this area include diversity climate as an important and salient aspect of culture.

It is possible that the relationship between pay equity perceptions and diversity climate is a complex one in which employee perceptions that pay is inequitable could affect their global perceptions of the diversity climate negatively. However, we note that the diversity climate measure does not include any items explicitly linked to pay and the factor analysis of the two scales indicates clear item separation with minimal cross-loading concerns. Further, the evolutionary theoretical development we cited earlier of the two constructs and the moderate correlation between the two variables ( $r = .42$ ) suggests that each variable has a unique effect on turnover intentions.

Our finding of consistent interactions between diversity climate and pay (in)equity at moderate and low levels of diversity climate has useful practical implications. Employee perceptions of pay equity may be malleable (Day 2012). Sharing information with employees of color about pay levels and providing detailed information during performance review meetings with employees may help clarify the rationale for their pay levels and enhance perceptions of pay equity. Further, since an unfavorable diversity climate appears to augment the effects of perceived pay inequity, it may be prudent for managers to also provide detailed information concerning efforts to maintain or improve the diversity climate.

Future research can explore other possible determinants of pay equity perceptions. Two possible sources meriting attention are procedural (Thibault and Walker 1975) and interactional (Bies and Moag 1986) justice. Procedural justice concerns perceived fairness in the administration of pay and other benefits, while interactional justice pertains to the demonstration of respect and dignity displayed by the supervisor to the employee in interactions. Employee observations of the pay determination and administration process and feeling respected may influence perceptions of equity generally and pay equity in particular.

Similarly, the diversity climate is an organizational dimension that managers can measure through employee surveys and can manage by setting and administering human resource policies and practices. Having employees of color perceive an unfavorable diversity climate appears to have a much more negative impact on turnover intentions when pay also is seen as inequitable. Fostering a more affirming diversity climate, while less important than ensuring pay equity, also appears to reduce turnover intentions.

There are several additional opportunities for future research to improve or extend the present study. Our findings that diversity climate augmented turnover intentions when perceived pay equity was lower but did not augment turnover intentions when perceived pay equity was higher suggest a boundary condition (Bacharach 1989) for the effects of diversity climate. Scholars have called for greater adoption of an interactional view in understanding the boundary conditions of diversity climate (Chen et al. 2012). Future research might seek to investigate the boundary conditions of diversity climate under other salient aspects of the psychological contract including participation, career ladders, job autonomy, organizational support, contract type, and contract duration (Sels et al. 2004; Kutaula and Gould-Williams 2013). At a more macro level we acknowledge that our study has been focused within the ethical dimension of CSR and it may be useful to consider other dimensions of CSR and more generally stakeholder theory to determine how they interact to impact turnover intentions.

While our results have practical implications and suggest interesting avenues for future research, this study has several limitations. In the current study, we did not employ a comparable sample of majority business faculty. Recent research suggests that our findings could also apply to majority professionals. Chrobot-Mason and Aramovich (2013) reported that a positive diversity climate was associated with reduced turnover intentions for majority, White study participants as well as for respondents from racial subgroups. Similarly, Hofhuis et al. (2012) found that an affirming diversity climate had a positive effect on job satisfaction for both majority and minority employees

in public service in the Netherlands. Future research could determine whether professionals of color are more, the same as, or less sensitive to pay equity and diversity climate. Future research also could examine the generalizability of the present findings by examining the effects of diversity climate and pay equity perceptions on the turnover intentions of professionals of color in other academic disciplines and in other industries such as the law, accountancy, and health fields, as well as among minority groups in other countries. It also is possible that the responses were biased in some way since there were a number of participants who failed to complete the entire survey instrument. An additional limitation is the small size of the sample; accordingly, the results should be interpreted with these cautionary notes.

We found that perceived internal equity affected turnover intentions, while perceived external equity did not. In our analysis of perceived internal versus external equity, we utilized a single item to measure external equity. Use of a single-item measure is not optimal; however, single-item measures have been shown to be valid measures (Dollinger and Malmquist 2009; Hofhuis et al. 2014; Robins et al. 2001; Wanous et al. 1997). Future research could explore the relationship between internal and external pay equity using additional items to obtain a more nuanced understanding of these relationships.

We employed a cross-sectional sampling from a single source (the employee). However, concerns that these findings are a result of same source bias are reduced by the strong significance of the relationships found herein, by the evidence that the relationships are consistent with prior theorizing and empirical results (Adams 1963, 1965; Butner et al. 2010; Hofhuis et al., 2014; Shore et al. 2006), and by recent methodological research which suggests that concerns about same source bias have been overstated in the organizational literature (Spector 2006).

While we had representation of African American, Hispanic, Native American, and non-U.S.-born professionals in our sample and we did not find any differences in perceptions as a function of race/ethnicity, the number of participants in the latter two categories was relatively low. Research assessing possible differences in attitudes among race/ethnic groups in the U.S. and globally has been limited but could be a fruitful area for future investigation.

The findings of this study provide flesh to the bones of Longo et al. (2005) social equity construct in their grid of values. It appears that for minority professionals, social equity includes both perceived pay equity as well as an affirming diversity climate. In the larger theoretical context of corporate social responsibility, the results provide support for the relevance of the ethical dimension, specifically with regard to the influence of the climate for diversity and to perceptions of pay equity on professionals' of color

turnover intentions. As the U.S. work force becomes increasingly diverse (U.S. Census Bureau 2014), knowledge about the unique concerns of different racioethnic groups, if any, may facilitate effective organizational recruitment and retention strategies.

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