

# London Business School

*Preference for rule-based vs. discretionary  
allocation systems: A threat perspective*

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## **Declaration**

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London Business School is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it). The copyright of this thesis rests with the author. Quotation from it is permitted, provided that full acknowledgement is made. This thesis may not be reproduced without the prior written consent of the author. I warrant that this authorization does not, to the best of my belief, infringe the rights of any third party.

## **ABSTRACT**

People can be very sensitive to the way their outcomes are determined. Allocation systems can be based on clear, predetermined rules and procedures (rule-based systems) or they can also allow for a high degree of discretion of an authority figure, based on an interaction with/observation of that person for whom the outcomes are allocated (discretion-based systems). I argue that the comparison to others in a discretionary allocation system elicits the fear that others (especially others who satisfy the same ‘eligibility rule’) will gain better outcomes than the self following the discretionary decision, and that this fear stems from a threat to basic fundamental motives such as self protection, status maintenance, and affiliation needs. This threat makes people often prefer rule-based allocation systems over discretionary ones. In the first part of my empirical examination I show in a series of studies using different methodologies (a field study, scenario studies and laboratory experiments) that the more people compare themselves with others, the less they are likely to prefer/choose discretionary allocation systems. I also examine the threat to the self protection motive but do not find support for this threat. In the second part of my empirical examination I examine the threat to the other two fundamental psychological motives (status maintenance and affiliation needs) that may be associated with a discretionary allocation system. My results show that status maintenance concerns and concerns for affiliation play a pivotal role in determining people’s preference for rule- vs. discretion-based allocation systems. This work has important implications for literature on job design by conceptualizing and examining discretion in allocation decisions from the perspective of those at the receiving end of the outcomes.

Key words: discretion, rules, comparison processes, threat, psychological motives

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## CHAPTER 1: INTRODUCTION

“Discretion has emerged from the shadows. Always known, grudgingly tolerated, it is now celebrated. Command-and-control regulation is replaced by decentralization, bargaining and flexibility. ... (Handler, 1992: 331).

The quote above reflects the notion that individual discretion is replacing rules and regulations as the basis for how society organizes its affairs. The determination and allocation of important societal outcomes such as salaries, the provision of health-care, housing and other benefits, can be based purely on predetermined and objective rules, or they can allow a degree of discretion to the allocator or the decision maker. Do people at the receiving end of those outcomes want others to have discretion over their outcomes? Is discretion really celebrated as Handler (1992) suggests? Are there threats to the self that prevent people from wanting others to have discretion in determining their outcomes? Those are the core questions I am asking in this work.

Imagine yourself in a situation in which your entry level salary for a job is being determined. You are told that your entry salary will be comprised of two components, A and B. Component A of the salary is determined based on objective criteria such as your academic scores, number of years with work experience etc. Component B of the salary is determined at the discretion of your future employer, based on an interview you are going to have with him/her. Therefore, component A of the salary is guaranteed and pre-determined. Component B is the potential added monetary value to your salary, and the size of it is determined at the discretion of your employer following your interaction with him or her. How comfortable are you with this system determining your entry level salary? Would you prefer a system in which only component A (i.e. salary determined only based on objective criteria) exists? And if yes, why? In this work I will try to answer the question *why might people prefer rule-based institutional*

*arrangements over those that also allow for discretion.* I will adapt a psychological perspective to explain this preference for rules and will also argue and show that a preference for rules can emerge even when discretion might yield better outcomes from a purely ‘economic’ perspective.

The question of whether people prefer a rule-based decision process or one where there is a discretionary element in the decision process is a crucial one that has not been thoroughly explored before in the organizational literature. Most previous work has been done in the political science arena (e.g. Merton, 1940; Thompson, 1961) and has focused on bureaucratic organizations and managers’ preference for rules and elaborated procedures to guide their behaviours within the organization (Bozeman & Rainey, 1998; Merton, 1940). Other work (e.g. Handler, 1992; Hawkins, 1992) has looked at discretion from the legal perspective trying to define discretion better and to contrast it with rules. There has also been work (e.g. Baumgartner, 1992; Feldman, 1992) looking more at the social context of discretionary decisions. In addition, there has been work examining discretion as a tool for management to control employees (e.g. Leifer & Mills, 1996) or looking at the beneficial consequences of discretion in terms of more autonomy and empowerment for employees (e.g. Barzelay, 1992; Hackman & Oldham, 1975; Osborne and Gaebler, 1992). The current work takes a different perspective by examining whether and why might people, both within and outside the organization, prefer their outcomes to be determined purely based on transparent and objective rules and procedures over procedures that allow for some discretion.

The question of whether a *focal person* prefers *another person* to have discretion over their outcomes is an important one to be asked, as people’s preferences

should be taken into account when designing organizational systems or decision processes. Assessing those preferences and taking them into account (rather than assuming them) may result in employees who are more satisfied and happy. As Langbein (2000) notes, discretion is endogenous and manipulable merely through rewriting of job description. Therefore assessing individuals' tolerance for discretion has important ramifications for organizational level decisions since organization designers have control over the degree of discretion provided to employees, especially when they are allocating outcomes to other employees.

This question is not only relevant for interactions within the organization but also relevant to the extent employees use discretion when allocating outcomes to customers. Would customers prefer a rule-based system to determine important outcomes or would they prefer employees to use their discretion when allocating those outcomes? To take an example, suppose you are at your local bank and were applying to get a special loan. Would you prefer the decision to grant you the loan to be based on pre-determined criteria (e.g., your income-level, your age, your marital status) or would you prefer the final decision to be at the discretion of the employee at the bank? Tapping this preference may provide important input for service organizations which seek to increase customers' satisfaction, and by that increase the organization's competitive advantage.

The question of whether people prefer a rule-based system or a discretionary system is related to the broad societal level question of whether people prefer interpersonal relationships to be based on contracts or on trust (Fukuyama, 1995). The same question is also relevant to the organizational level question of whether organizations choose more control or formal governance rather than relying on trust in

intra- and inter-organizational interactions (e.g. Caldwell & Karri, 2005; Puranam & Vanneste, 2009). .

The simple answer to the question of whether people would prefer a rule-based or a discretionary-based system to determine their outcomes is that they will prefer a system that gives them the better outcome. Given the uncertainty inherent in a discretionary system, however, can people know in advance what is better for them? And most importantly, what psychological processes does the uncertainty inherent in a discretionary decision process elicit?

### ***The theoretical puzzle***

Over the course of history, society appears to have moved from discretionary institutional arrangements towards more rule-based institutional arrangements (Scalia, 1989; Vogel, 1996). This is especially true for the judicial system, but is also manifested in social contexts where the natural evolution is towards more rules and norms to direct our behavior (Ullmann-Margalit, 1977). Take for example the market place where bargaining over the prices of goods has been replaced with fixed prices in most of the developed world. Even in the car selling industry, where there seems to be a tolerance for bargaining and for seller discretion, ‘Saturn’ (an automobile manufacturer established in 1985 as a subsidiary of General Motors, and which was known for its ‘no haggle prices’) is an example of how the market moved away from discretionary systems. In fact, a survey from 2006 of car shoppers indicated that almost two-thirds of them said they would prefer to pay a single set price rather than haggle over the price that they would pay for their car<sup>1</sup> .

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<sup>1</sup> See [http://money.cnn.com/2006/09/19/autos/debating\\_no-haggle/index.htm](http://money.cnn.com/2006/09/19/autos/debating_no-haggle/index.htm)

There are several reasons why there is a general tendency towards regulation. First, we perceive the usage of rules as more just and therefore collectively more beneficial (Scalia, 1989). The reason we find them more just is that we find it hard to trust a discretionary authority to make the ‘right’ decision across time and situations. As Tyler and Lind (1992) posit with their fairness heuristic theory, we are afraid of the possibility of being exploited by the discretionary authority. From a procedural justice perspective, discretion seems to violate the consistency rule (Leventhal, 1980). It is easy to see how a discretionary system can violate the consistency rules, by giving to people with the same ‘objective’ characteristics, or ‘eligibility rule’ different outcomes. Rules, on the other hand, allow for consistency<sup>2</sup>. Secondly, a discretionary decision-making process is uncertain by definition. Rules serve to reduce psychologically discomfoting ambiguity and uncertainty (Buhr & Dugas, 2002; Gao & Gudykunst, 1990; Gordon, 2003).

On the other hand, the ability to voice and participate in the decision process is crucial to the perception of procedural justice (e.g. Leventhal, 1980; Thibaut & Walker, 1975; Tyler, 2000). A discretionary decision process which is based on an interaction with (or at least an observation of) the person at the receiving end of the outcomes would allow this person to argue for his/her case, and to explain any special circumstances that might be relevant to the decision process that are not captured by the rules. When we think about discretionary processes we think of benefits such as flexibility and consideration of personal needs (Bowen & Lawler, 1992). There are also

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<sup>2</sup> It is important to note that I do not make the assumption that discretion is less fair than rules. Rules can be perceived as more or less fair, depending on people’s values, perceptions etc. In quite the same manner, discretion can be perceived as more or less fair. For example, it is easy to imagine that a discretionary decision based on one’s race is not fair while a discretionary decision that is based on an interaction which helps raise substantial information to inform the decision can be perceived as fair.

many cases in which discretion creates added value for the individual. Going back to the bank example from before, imagine yourself going to the bank to ask for a loan. There would certainly be rules determining your eligibility for a loan (for example, depending on your income level, your credit check score, your marital status etc.). In addition, the employee at the bank can use his or her discretion to give you a larger loan based on their interaction with you and the information you gave them during this interaction. If you are eligible for a certain loan based on the defined pre-determined criteria, you will receive at least this amount of a loan and will not be deprived of your eligibility following the discretionary decision. You can only benefit from receiving something ‘extra’, beyond your ‘eligibility rule’. So why not want employees at the bank to have discretion? Given the ‘surplus’ discretion provides in many cases, do people act against their self interest by not preferring a discretionary system, because of the general heuristic notion that rules are more just in general?

My answer to this question is that people are still largely self-interested, but that there is another self interest that should not be overlooked, which is the *self interest in the social context*. For this self in the social context, there are other psychological motives that need to be satisfied in addition to the satisfaction of ‘economic’ self interest. I argue that a discretionary system can represent a threat to those motives or needs.

More specifically I argue that the complexity starts when people think in *relative or comparative terms*, i.e., when they start focusing on what other people get. When people realize that other people may receive more than what they themselves receive with discretion, or other people may get the desired outcome while they may not, they feel threatened. There are two ‘layers’ to the situation of a discretionary

allocation system that each elicits threats that may accompany this comparative component. One layer is the potential variation that comes with discretion (over a pure rules-based system). With the rule-based component of outcome allocation, eligibility to certain outcomes is clear and predetermined. However, the discretionary component of the outcome allocation gives the person who is making the allocation decision the opportunity to create variation in the outcomes allocated to people at the receiving end of the outcomes, even to people who satisfy the same 'eligibility rule'. This mere variation represents a fundamental threat to one's status in a group, as will be elaborated below.

The second layer in a discretionary allocation system is that the discretionary decision of the allocator is based on an interaction with or at least an observation of the person for whom the outcomes are allocated. If the discretionary decision is based on this interaction/observation, this means that the person for whom the outcomes are allocated had some role, or agency in determining the final outcome. To the very least one could expect that people would assume they have a role, thinking that their interaction with the decision maker affected the extent to which they received better or worse outcome. This agentic role of the person at the receiving end of the outcomes in determining his or her outcomes in a discretionary system elicits additional threats that will be elaborated below.

The threat that comes with merely the variation of outcomes is likely to be stronger for people who feel that they might be advantaged by the rules. Any added discretion in this case would be a risk for their standing in a group, a risk they may not be willing to take. For example, imagine a situation in which the rule is a performance rule, meaning that those who succeed by getting higher scores on a test are entitled to

certain benefits, but in addition a person who is in charge of allocating those benefits has the discretion to give some extra benefits to some people at his or her discretion. In this situation, those who perceive themselves as satisfying more the performance rule (i.e. high performers who score high on the test) are less likely to be satisfied with the discretionary process. The reason is that the performance rule puts those people higher in hierarchy than others, as based on this rule they receive higher benefits than others. The variation in outcomes that comes with the discretion of the allocator jeopardizes their ranking or relative standing in the group, since following the discretionary allocation others who were equal/lower on performance, may suddenly get higher/equal benefits than they would. This situation creates threat to those high performers' status, or relative standing in a group. Therefore, their need to maintain status in the group (e.g. Barkow, 1989; Flynn, Reagans, Amanatullah, & Ames, 2006; Homans, 1951; Pettit, Yong, & Spataro, 2010) is likely to be elicited and make them uneasy with a discretionary system, even if on an absolute level they might benefit from discretion.

The agentic role of the person at the receiving end of the outcomes described above, meaning the responsibility they may feel at securing certain benefits in a discretionary system suggests additional threats that might be associated with discretion. If one fails to achieve as good outcomes as others (especially others with the same 'eligibility rule') based on discretion, the attribution that one can make is that he/she were not competent enough in this interaction with the allocator, the decision maker, and thereby were not able to influence the allocator to give them good outcomes. Thinking that one was not competent enough in influencing the decision maker can translate to a more generalized attribution that one is not as competent as others and serve as a serious 'blow' to one's self esteem. Therefore the need to protect

the ego (e.g. Alicke & Sedikides, 2011; Tesser, 1988) might make people uneasy about a discretionary system.

Secondly, if one fails to achieve as good outcomes as others in a discretionary system, especially compared to similar others, one can make the attribution that this may mean that they (compare to others) are not competent enough specifically in interpersonal communication and in making other people like them. If people feel that they are unable to make others like them enough (and an indication for liking them would be giving them better outcomes in a discretionary fashion) this can represent a ‘blow’ to their need to belong and be liked by others. Therefore a discretionary system can elicits a threat to one’s affiliation needs or the need to belong (Baumeister & Leary, 1995; Bowlby, 1969; 1973; Maslow, 1968).

Lastly, if one fails to achieve as good outcomes as others in a discretionary system, especially compared to similar others, *and* others know that one didn’t manage to get as good outcomes as others based on discretion, one is aware that others may attribute their inability to secure good outcomes to one’s incompetence. As one’s status is based on respect and admiration of others (e.g. Berger, Cohen, & Zelditch, 1972; Hughes, 1945; Keltner, Gruenfeld, & Anderson, 2003), other people’s attribution that one is not competent enough (as indicated by the lack of ability to secure good outcomes compared to others in a discretionary system) is again a threat to one’s standing in the group, and the need to protect one’s status is elicited again.

The psychological threats discussed above are all built on the assumption that people *compare* their outcomes in a discretionary allocation system to the outcomes of others. Those threats are meaningless if people were to consider only their absolute

outcomes. Therefore comparison processes are pivotal in determining why people may be uneasy with a discretionary system.

In this work I will integrate literature on fundamental and evolutionary psychological motives (e.g. Blunt Bugenthal, 2000; Tooby & Cosmides, 1992) and literature on social comparison (e.g. Festinger, 1954) to argue that it is the comparative component in a discretionary system that elicits psychological threats to basic fundamental motives and by that make people shy away from a discretionary allocation system. In the first part of my empirical investigation (Studies 1-3) I show that given a discretionary allocation system, when the presence of others is more salient, people are less likely to prefer the discretionary system. Showing this effect helps supporting the argument that comparison processes are what makes people dislike discretion. In the second part of my empirical examination (Studies 4-6), building on the assumption that comparison processes will be prevalent in a discretionary allocation system given the uncertainty inherent in this system, I look more specifically at the different psychological motives that are hypothesized to be threatened in a discretionary allocation system.

In the next section I will elaborate on the concepts of discretion vs. rules and will elaborate on the literatures on social comparison and on psychological motives that stand in the basis of my prediction.

## **CHAPTER 2: LITERATURE REVIEW**

### ***What do we mean when we say discretion?***

The concept of discretion is well developed and widely researched in the legal literature. I therefore chose to start the discussion about discretion with the legal

perspective, from which I believe many implications to other organizational systems can be drawn.

### *Discretion in the legal perspective*

In his book, *The Uses of Discretion* (1992) Keith Hawkins summarizes theory and empirical evidence on the usage and limitations of discretionary systems. Hawkins defines discretion as “the means by which law – the most consequential normative system in society – is translated into action” (Hawkins, 1992: 11). Denis Galligan (1986) argues that discretion denotes an area of autonomy within which one’s decisions are a matter of personal judgement and autonomy. Schneider (1992) describes discretionary cases as ones where a judge who has consulted all relevant legal materials is left free by the law to decide one way or another (Greenawalt, 1975). The common basis to all those definitions is the autonomy legally **granted** to a decision maker to decide beyond clear rules.

Legal researchers have further elaborated on different forms or types of discretion. Dworkin (1977b) distinguishes between three forms of discretion: one form of ‘weak’ discretion that requires some kind of judgement from the decision maker even though a rule or a standard exists, another form of ‘weak’ discretion in which an official has the final authority to make a decision that cannot be later altered by another, and lastly a ‘strong’ discretion which exists when the decision maker is not bound by any constraints. Goodin (1986) suggested another distinction between ‘formal’ discretion, where options or alternatives are written into a rule, and ‘informal’ discretion, where options are only implicit. Goodin (1986) also distinguishes between ‘provisional discretion’ which exists when the discretionary decisions are subject to review and possibly reversal, and ‘ultimate discretion’, which exists when those

decisions are not subject to review (this distinction is much related to the 'weak' versus 'strong' distinction).

Schneider (1992) elaborates on four types of discretionary authority that tap the source of discretion: (1) the 'khadi-discretion'. This one is the most complete and is foreign to the Western legal system. It exists when it is thought that one can find decision makers who are wise, who understand the principles of justice and who well identify the relevant facts. (2) the 'rule-failure discretion', which is created when it is believed that circumstances can vary and be so complex that one cannot write satisfactory and accurate rules. Though this kind of discretion is different from Khadi discretion in several fundamental ways, the common basis for both is that discretion allows flexibility and allows the decision maker to do justice in the individual case. (3) 'Rule building discretion' arises when the rule-maker cannot design only rules and concludes that better rules would be developed if the decision maker is allowed to build them as he/she goes along. This can be based on the experience with an individual case, assuming that the decision maker will have better understanding of the situation (as opposed to a generic rule that will determine the outcome). This kind of discretion can be very useful in times of rapid and massive social change. (4) 'rule-compromise discretion': when the members of governmental body in charge of instructing the decision maker cannot reach a decision and pass responsibility to the individual decision maker. The type of discretion most relevant to the current work is the 'rule failure discretion' as the current work focuses on discretion in allocation of outcomes, and in the allocation of outcomes there might be rules, but there might also be situations in which the rules may not be sufficient to determine the allocation (such as

cases in which resource are scarce and there are too many people who satisfy the ‘eligibility rule’), and in which some degree of discretion is necessary.

Another stream of research in the legal literature, which is relevant to the current work, has looked at the relationship of discretion with justice. As Hawkins (1992) argues, in the liberal state, law needs to be applied consistently, openly and dispassionately and rules are the most appropriate means to do that. Discretion, on the other side represents the opposite as it is ‘subjective justice’ (Handler, 1986: 169). According to Hawkins (1992), the flexibility of discretion can be valuable in individualizing the application of the formal law, but its subjectivism can be a cause for inconsistency in decision outcomes, whereas apparently similar cases may be perceived and treated differently. Hawkins (1992) even argues that discretion can give rise to similar outcomes for apparently different cases.

Discretion has been also criticized for the power that it gives to officials and the scope for its abuse, and for the fact that for those who are affected by discretion, discretion can lead to uncertainty and insecurity (Hawkins, 1992). Lastly, in the case of discretion, decision makers are free to take into account different kind of information, some of which may not be reliable, accurate or relevant. Hawkins, for example refers to the moral evaluation of the person for whom discretion is used (i.e. defendant in court): the identity, status or character of a person offering evaluation or information to the decision maker is influential and leads to discretionary assessments of the competence, trustworthiness or sincerity of that person. Those assessments may naturally be biased.

In sum, the legal perspective on discretion has been occupied with defining discretion, distinguishing between different forms of discretion and also with looking at the relationship between discretion and justice. Another perspective of discretion is

offered by scholars who look at the social context in which discretionary decisions are made. Therefore, rather than viewing it as an individual decision, those scholars address the social context in which discretionary decisions are made.

#### *A social scientist's perspective*

Handler (1992) discusses the problems created by unfair application of power in the use of discretion. The imbalance of power arises according to Handler because officials in large bureaucracies have the choice of using discretion, while dependent people lack the information and ability to make an effective case for their interests. He argues that “discretion allows for the bargaining away of publicly defined normative standards and may further disadvantage the weak and the powerless” (Handler, 1992: 333). Handler therefore takes the view of empowering those who are subject to discretion, meaning making them partners in the exercise of discretion and having the ability to consider alternatives (therefore altering the power structure).

Moving to the macro-level, Feldman (1992) looks at discretionary decision making as a social rather than as an individual process and is concerned with the social forces that shape discretion in the organizational world. She relies on organizational theory and decision making literature to provide a framework of looking at the social control of discretionary behaviour in organizations. She defines discretion as “the legitimate right to make choice based on one’s authoritative assessment of a situation” (1992: 164) and describes discretion as inevitable in bureaucratic settings as general rules cannot give enough guidance in everyday organizational lives, especially to those “street level bureaucrats” (Lipsky, 1980), those teachers, police and social workers who exercise discretion everyday and are not under direct supervision. Feldman argues that bureaucratic discretion is efficient but at the same time given to individual injustices as

some “bureaucratically irrelevant” features may be important in the individual cases. She therefore points out to the challenge of organizing bureaucracies such that “...exercise of discretion is confined to the relevant idiosyncrasies by influencing the determination of appropriate beliefs and behaviours” (Feldman, 1992: 183). According to Feldman it may be beneficial to look at control over discretionary behaviour through means that influence the process of interpreting the context in which discretionary decisions are made. She suggests formal training, informal socialization and routines, as three means through which control over process can occur.

#### *Discretion in the micro organizational world*

Discretion within the organizational world can be defined as *the latitude given to employees to perform their tasks or activities* (Bowen and Lawler, 1992; Conger & Kanungo, 1988; Schlesinger & Heskett, 1991). Therefore, discretion represents more freedom in the decisions of employees in the organization. In that sense, discretion is related to another organizational concept of employee or job autonomy. Within the framework of the job characteristics model (Hackman & Oldham, 1975) job autonomy was identified as an essential component for employee motivation. While other components (i.e. variety, identity) can increase or decrease levels of motivation, having no autonomy means having zero motivation. Therefore, according to this perspective employees should have some degree of discretion.

A related concept coming from the same perspective is empowerment.

Empowerment is the degree to which employees are encouraged to make their own decisions (Fey, Nordahi, & Zatterstrom, 1999). Empowerment means to give power, and so organizations can empower employees by giving them some discretion or decision latitude.

While both the concepts of autonomy and empowerment are related to employee's discretion, they both look at discretion from the point of view of the employee him/herself or as a tool for the organization to motivate the employees within the organization. Previous research has connected employee discretion with productivity (Barzelay, 1992; Osborne & Gaebler, 1992), increasing sales opportunities (Gronroos, 1990), reduced job strain (Karasek, 1979), better business performance (Finkelstein & Hambrick, 1990) and perceived organizational support (Eisenberger, Cummings, Armeli, & Lynch, 1997).

However, some scholars, mainly in the service literature, argue that discretion has its downsides. They look at discretion mainly from the perspective of employees interacting with people outside the organization, namely the customers. As Becker and Olsen (1995) suggest, granting discretion to employees can undermine the achievement of organizational goals in some situations. They argue that discretion introduces uncertainty in the transaction because of unpredictable behaviours by employees. This may not be beneficial to the organization (Bowen, 1990). Smith and Houston (1983) suggest that service employees should not have discretion and that they should act based on scripts, in order to facilitate control and compliance. Bowen and Lawler (1992) argue that discretion can slow down service for waiting customers when employees try to individualize the service for customers. In a similar fashion, Becker and Olsen (1995) claim that "... employee discretion associated with empowerment is the antithesis of what is needed to secure the loyalties of customers who expect speed, convenience and consistency (1995: 47)".

The last quote from Becker and Olsen (1995) exemplifies the main problems associated with employee discretion, namely the violation of consistency. The decision

latitude naturally leads to inconsistent outcomes across people and possibly across time. This is similar to the legal perspective articulated by Handler (1992). Though this violation of consistency is suggestive of fairness concerns that may prevent people from preferring discretion, I note that a simpler ego-centric explanation is sufficient to explain why people prefer rule-based over discretionary decision making processes.

Rules that govern the distribution of outcomes are the opposite of discretion and I will contrast the two discussing the advantages and disadvantages of both in the next section.

### *Discretion versus Rules*

Employees often act based on existing procedures and determine individuals' outcomes by a rule-based system or using pre-determined criteria. Schneider (1992) argued the ideal type of rule is authoritative, mandating, binding, specific, and gives precise direction to a judge which directs him/her how to decide on a case (Schauer, 1991). Therefore, using a rule-based system leaves no place for ambiguity, uncertainty or doubt. In a sense, this is true not only for those decision makers or judges who are using the rules, but also for the people who are affected by those decisions. For them as well, a rule based system represents a certain, unambiguous system in which criteria for judgement are predetermined and clear for both sides. In essence, it represents a riskless system.

What might be the advantages of discretion? Schneider (1992) argues the first advantage of discretion stems from the main disadvantages of rules: rules can have disadvantages or can malfunction when (a) there is conflict between two rules, and (b) when we perceive the rule to conflict with our basic understanding of justice.

Discretion, in such cases, helps decision makers to deal with the failure of rules.

Schneider (1992) summarizes additional advantages to discretion: (1) Discretion allows decisions to be tailored to the particular circumstances of each case. (2) Discretion gives flexibility to do justice (by allowing the consideration of all information and by allowing decision makers to watch how decisions work and adjust future decisions based on new information). (3) Discretion leads to better decisions by discouraging bureaucratic ways of thinking.

In contrast to those advantages, Schneider (1992) also discusses the disadvantages of discretion. According to Schneider (1) discretion makes it easier for decision makers to act based on illegitimate considerations and consequently to make mistakes. (2) Discretion is kind of power, and power corrupts. Therefore according to Schneider, discretion may lead to arrogance and carelessness from those using discretion.

To complement the discussion regarding the advantages and disadvantages of discretion, Schneider discusses the distinctive advantages of rules. According to his view (1) Rules contribute to the legitimacy of a decision since there is less concern for substituting private for public standards and interests. (2) Rule makers have more time and resources to study a problem in a comprehensive way and may also be better able to bring the interest of different social groups together, i.e. having a broader scope. (3) Like cases should be treated alike and therefore rules are more appropriate in giving the litigants a sense they have been treated fairly. (4) The public nature of rules versus private nature of discretion makes rules more beneficial as they affect number of people simultaneously. Many rules instruct people how to act and therefore serve a 'planning function': people and institutes know how to behave and plan their work and life according to the law or rules. (5) Rules can serve social purposes that discretion serves

less well, such as a normative announcement of how people should behave. (6) Rules are more efficient than discretion as they are a way of institutionalizing an experience.

In sum, there may be advantages and disadvantages to using either rules or discretion when decisions are made. But is it really either-or, or is there an element of discretion in rules and an element of rules in discretion?

Some socio-legal analyses see discretion as distinct from rules (e.g. Davis, 1969) and posit that discretion involves decisions that are unconstrained by rules (as rules may not apply, may be vague, or multiple), while nondiscretionary decisions are those that accord with the rules. However, more and more people scholars tend to believe that there is no real dichotomy between rules and discretion and that there is interpretive usage of rules (which mixes discretion with rules) and there are also rule-based or other informal rule-based limitations to the usage of discretion. Dworkin (1977b) uses the metaphor of a doughnut to describe discretion. He argues: “Discretion, like the hole in the doughnut, does not exist except as an area left open by a surrounding area of restriction” (1977b: 31). In that sense discretion does not operate alone in a vacuum, but is always limited by existence of rules.

Hawkins also argues that discretionary decisions are usually not unconstrained as they might appear, and that social constraints lead to patterned outcomes in the aggregate. Discretion is therefore not only subject to legal constraints, but is also shaped by political, economic, social and organizational forces (Hawkins, 1992). Organizational routines for example help in the exercise of discretion (Feldman, 1992). Other top-down organizational decisions may also shape the use of discretion. Lastly, according to Schneider (1992) it is hard to work out the proper balance of rules and

discretion. Schneider argues that in the world we live in there is not a choice between discretion and rules, but rather a choice between different mixes of discretion and rules.

Based on this conceptualization I also argue that in the organizational world, it is less likely to see a situation when only pure discretion exists without any reliance on rules. People are seldom free to make any decision that is not bounded by any rules. This kind of situation is likely to create chaos in the organization. I will therefore also empirically look at situations in which there are rules but where the person allocating the outcomes is allowed some discretion.

In summary, while the usage of rules vs. discretion when allocating outcomes has been extensively studied in the legal literature, surprisingly little has been done in the organizational literature. My research attempts to fill this gap by taking the perspective of those at the receiving end of those outcome allocation decisions. It aims at explaining what the anxieties that a discretionary decision process create are, anxieties that relate to threats to or potential violations of fundamental psychological motives. In the next section I elaborate on different psychological motives that I see as relevant to this phenomenon.

### ***Fundamental evolutionary psychological motives***

Evolutionary psychologists describe how individuals' perceptions, preferences and behaviors have developed in response to ever changing environments and with the purpose of allowing humans to survive in the ancestral environment (Cosmides & Tooby, 1994; Tooby & Cosmides, 1992a, 1992b). Cosmides and Tooby (1994) describe how natural selection is what produced complex cognitive machinery in organisms and argue that natural selection built the decision making modules in the

human mind. The basic idea behind the arguments made by evolutionary psychology is that the properties of an evolved mechanism reflect the structure of the task or problems it evolved to solve, and those problems are adaptive problems. 'Adaptive' refer to problems that recurred across many generations throughout human history and that their solutions promoted survival and reproduction in the ancestral environment (Cosmides & Tooby, 1994). Therefore, the human mind does not resemble a general-purpose computer that is initially free from any content ("tabula rasa"), but is rather a network of computational devices that are functional in nature and have developed with the purpose of solving social, domain-specific problems, such as foraging, social exchange, parental care, problems that existed in human's hunter-gatherer past, rather than those that exist in modern life (Cosmides & Tooby, 1994; Tooby & Cosmides, 1992a, 1992b).

Therefore, we as humans may be predisposed evolutionary to behave in a certain way that from an evolutionary perspective solved a particular problem, even if in modern life this problem is less relevant. An example, provided by Blunt Bugental (2000) is young children's night-time separation anxiety – young children react with persistent crying to this separation and this reaction used to be adaptive in the evolutionary past when night-time separation put them at risk of predation. Despite the fact that in modern life young children sleep in safe houses and are not exposed to this danger, this behavior persists as remains to the problem of attachment (or safety maintenance) that had to be solved. Blunt Bugental (2000) provides specification of five different social domains: attachment interactions, identity-based coalitional interactions, mating interactions (all three relate to bonding processes), equality-based reciprocal interactions, and dominance based hierarchical interactions (the two that

relate to continuous negotiation processes). For each of those domains Blunt Bugental (2000) describes the social-emotional response that has evolved in human. For example, in the hierarchical domain, having high resource-holding potential results in feelings of assertion and confidence, while a threat from other, who holds high resource holding potential, results in feelings of fear.

Thus, from an evolutionary perspective human behavior is in a way automatically regulated by the responses to problems in different social domains. Consistent with the conceptual framework suggested by Blunt Bugental (2000) of bonding processes vs. continuous negotiation processes, I look at three specific fundamental psychological motives that people are likely to strive to fulfil– the need to belong to a group (that is related to the bonding processes suggested by Blunt Bugental), the need to maintain high status in a group (that can be related both to the continuous negotiation process and to bonding processes) and the need for high self regard or self esteem (that can serve also serve both types of domains).

Next I elaborate specifically on those three fundamental motives and their evolutionary routes.

#### *Affiliation needs or the need to belong*

Baumeister and Leary posit that “a need to belong, that is, a need to form and maintain at least a minimum quantity of interpersonal relationships, is innately prepared (and hence nearly universal) among human beings” (1995, p. 502). Psychologists such as Freud (1930), Maslow (1968) and Bowlby (1969; 1973) have all acknowledged the human desire to belong to a group.

Maybe the most compelling evidence to the existence of this fundamental motive is the evidence about the consequences of deprivation of this need (Baumeister & Leary, 1995). Being deprived of belongingness has a direct effect on the immune system (Kiecolt-Glaser, Garner, et al., 1984), is associated with higher incidence of psychopathology and mental illness (Bhatti, Derezotes, Kim, & Specht, 1989; Hamachek, 1992) and higher incidence of adult crime (Sampson & Laub, 1993). The evidence for cognitive and behavioral consequences of a threat to this need was also vastly documented in laboratory studies. In a series of studies Baumeister, DeWall, Ciarocco, and Twenge (2005) show how manipulated social exclusion (a threat to one's belongingness need) impairs participants' ability to self regulate on a subsequent task, and Baumeister, Twenge, and Nuss (2002) showed that social exclusion reduced participants' performance in cognitive complex task. Those cognitive impairments are likely to be caused by impairment to self regulation ability that is caused by the necessity to suppress negative emotions stemming from the aversive event of exclusion.

Research has also shown the negative behavioral consequences of being excluded (hypothesized as well to be caused by impairment to self regulation capacity), including showing more self defeating behaviors (e.g. procrastination and excessive risk taking, Twenge, Catanes, & Baumeister, 2002) and aggressive interpersonal behaviors (Twenge, Baumeister, Tice, & Stucke, 2001). Recently, research on risk of social exclusion, showed that people who perceive themselves to be at risk of exclusion (but not actually excluded) are more likely to engage in interpersonal behaviors that are likely to signal to their group that they are worthy of being included in the group (Derfler-Rozin, Pillutla, & Thau, 2010). This evidence also demonstrates the basic pursuit of humans of inclusion in groups.

It is not surprising that the need to belong has developed as a fundamental human motive. To survive in the ancestral environment, humans needed to be organized in groups, and those who were excluded from their groups usually faced substantial risks to their survival (and usually did not survive) (e.g. Baumeister, Brewer, Tice, & Twenge, 2007). The satisfaction of this need is related to solving problems that relate to bonding and identity processes in Blunt Bugental's conceptualization. Therefore, the need to belong or affiliate with others will be a need that people will be motivated to protect.

### *Status maintenance*

Another basic motivation I am going to discuss in this work is the basic motivation to maintain status in a group. Going back to the conceptualization of Blunt Bugental (2000) of the different social domains, gaining higher status in a group could help in promoting solution to the mating domain (by making one more attractive to opposite sex) and coalitional domain (as people would want to bond with high status individuals) as well as to the hierarchical power domain (by enabling individuals to have higher resource holding potential).

High status individuals were likely to accrue benefits that relate to mating and hence better reproduction ability (e.g. Cronk, 1991; Ellis, 1995; Hopcroft, 2005). They were also likely to receive other benefits such as respect and more coalitional support in times of conflict (Gurven & von Rueden, 2006). High status is also connected with deference of others and with access into desirable resources (Henrich & Gil-White, 2001; Weisfeld & Beresford, 1982). Ethnographic data (e.g. Bateson, 1958; Hawkes, 1990) show that high status males enjoyed benefits that other lower status males were

not allowed to enjoy (such as marrying multiple wives, or having sexual relationship with married women).

Recent studies exemplify some of the benefits of status: high status individuals are more likely to receive help from other group members (Van der Vegt, Bunderson, & Oosterhof, 2006), and they have more choice of partners for interaction (Hardy & Van Vugt, 2006).

Given the benefits associated with having status, it is not surprising that people strive for status. This striving has been acknowledged as a fundamental psychological motive (e.g. Barkow, 1989; Frank, 1985; Lin, 1999). Ellemers, Doosje, Van Knippenberg, and Wilke (1992) and Scheepers and Ellemers (2005) show that people are attuned to the environment in order to maintain their standing compared to others, and Pettit, Yong, & Spataro (2010) show in a series of lab experiments that people put great efforts to prevent themselves from losing their status in a group.

### *Self esteem maintenance*

Self esteem relates to a person's evaluation of, or attitude towards him or herself (James, 1890) and there seems to be an agreement about the existence of the motive to maintain and defend positive self evaluation (e.g. Rogers, 1959; Tesser, 1988). As Crocker and Park (2004) posit, the pursuit for self esteem has been so widely researched that researchers now tend to treat it as a universal and fundamental human need (e.g. Allport, 1955; Baumeister, Heatherton, & Tice, 1993; Maslow, 1968; Rogers, 1961; Rosenberg, 1979; although see Ryan & Brown (2003) on a discussion why self esteem is not a need). Leary and Baumeister (2000) and Leary and Downs (1995) even posit that humans evolved as a species to pursue self esteem.

From an evolutionary perspective it is easy to see the benefits of having high self esteem. The higher level of confidence for people high in self esteem (McFarlin & Blascovich, 1981) may have allowed those people to be more pro-active and react in a more confident manner to environmental threats in the ancestral environment. It is also likely that high self esteem people who feel good about themselves have better psychological health that comes with the positive affect that is associated with high self esteem (Crocker, Karpinski et al., 2003; Crocker, Sommers, & Luhtanen, 2002; Mascolo & Fischer, 1995) and that high self esteem can serve as decreasing stress and anxiety (e.g. Ryff & Singer, 1998; Taylor & Brown, 1988). High self esteem also reduces the anxiety regarding human mortality. Terror Management Theory (Greenberg, Pyszczynski, & Solomon, 1986; Pyszczynski, Greenberg, Solomon, Arndt, & Schimel, 2004) posits that “...self-esteem functions to shelter people from deeply rooted anxiety inherent in the human condition...the terror that results from awareness of the horrifying possibility that we humans are merely transient animals groping to survive in a meaningless universe, destined only to die and decay” (Pyszczynski et al., 2004: 436). Self esteem reduces the anxiety by satisfying standards of worth and values based on a specific world view. Research shows that participants high in chronic self esteem as well as those for whom self esteem was manipulated show less denial to the vulnerability of earth death (Greenberg et al., 1993).

Lastly, people who are high on self esteem are likely to accrue some benefits in terms of their mating ability – being able to attract people from the other sex – and by that increase their reproductive success, as happy and confident partners are likely to be attractive ones (Sedikides & Skowronski, 2000). They are also more likely to be seen as effective group members (Sedikides & Skowronski, 2000). Therefore, self esteem is

related to and can help in accomplishing other fundamental motives such as the need to belong to a group and the need to acquire status or high level of hierarchy in the group (both described in the above sections).

In summary, I have elaborated on three fundamental human motives –the need to belong, the need to maintain one’s status, and the need for high self regard. It must be noted, that those motives do not necessarily exist independently and may have strong connections. For example a violation of the need to belong may have serious implications for the need for high self esteem. Sociometer theory (Leary, Tambor, Terdal, & Down, 1995; Leary & Baumeister, 2000) posits that self esteem serves as a monitor of others’ reactions to oneself and alerts people of the possibility of social exclusion. For example Leary et al., (1995) show that social exclusion causes decrease in self esteem when respondents are excluded for personal (as opposed to non personal and random) reasons, and in general participants’ rating of how included they feel in a group correlated with their self esteem scores. In that sense, a threat to belonging needs can also represent a threat to one’s self esteem.

Naturally the basic needs mentioned so far all make sense only when we think of an individual operating within a social context. This operation in the social context is what elicits many of those needs, but the social context also elicits something else – it elicits comparison processes. We as human beings inevitably compare ourselves to others. Those comparisons in turn may represent threats to certain fundamental needs in certain situations. In the next section I am going to provide a brief overview on social comparison theory (Festinger, 1954), after which I will turn to the main theory development part that connects discretionary outcomes allocation system, comparison processes and fundamental psychological motives.

## ***Social comparison theory***

Social comparison theory has been initially examined in the seminal work of Leon Festinger (1954), *A Theory of Social Comparison*. Festinger argued that this work is a further development of his earlier work, *Informal Social Comparison* (Festinger, 1950). In this earlier work Festinger dealt with the “forces” that make individuals communicate with one another and the pressures to reach uniformity of opinions in the group. Festinger argued that when dependence on physical reality is low or even zero, people will rely on social reality, meaning an opinion will be valid to the extent that it is anchored in a group of people with similar beliefs. Festinger further argued in this work that people tend to locomote into groups that share their opinions and out of those groups of those which do not agree with them.

This earlier work is directly related (and some even argue that it has constrained in a way, see Stapel & Blanton, 2007) to Festinger’s theory of social comparison, since Festinger argued that the main motivation for people to engage in social comparison is informational. This motivation represents a need for uncertainty reduction (Stapel & Blanton, 2007), i.e. people desire to evaluate their opinions and abilities. Therefore, quite similar to his earlier work, Festinger argued that in the absence of objective non social means, people evaluate their opinions and abilities by comparison with the opinions and abilities of others.

But how do people choose who they are going to compare themselves to, namely who is the referent other or the referent group? Festinger (1954) argued that a basic criterion for choosing the referent other for comparison is similarity. He hypothesized that people choose someone close to their own ability or opinion as this is the comparison that results in obtaining the most valued information.

Since the original work of Festinger, social comparison theory has evolved in many directions. Probably the main development was the idea that the motivation for social comparison is not all rational for the aim of increasing accuracy, but is also motivational and engaging. For example Goethals and Darley (1977) suggested that people are motivated to seeing what they want to see (validate and not only evaluate) and therefore engage in comparing themselves to similar others.

Other researchers diverged from the similarity hypothesis and have suggested that people in fact engage in either upward or downward comparison. Some researchers focused on upward comparison, meaning comparison to advantageous (or more fortunate) others. Wheeler (1966) has interpreted Festinger's unidirectional drive upward as meaning that people prefer comparing to others who perform better than they do or have higher relevant abilities.

In contrast, other researchers have talked about people's motivation to engage in downward comparison, meaning the comparison to less fortunate others. By that they in fact suggested additional motivation for social comparison which is self enhancement (rather than only self evaluation). Suls (1977) for example argued that people have the drive to improve performance relative to others and to appear more capable than others, and that this ego-enhancing motive is better served by making downward comparisons. This argument is one of the core building blocks of Tesser's (1988) Self Evaluation Maintenance (SEM) model, which asserts that people behave in a manner that maintains or increases their self esteem.

Do people tend to engage more in upward or downward social comparison? Taylor and Lobel (1989) argue that people do both but with different motivations or different needs. They examined people under threat (e.g. cancer patients) and showed

that people tend to “affiliate upward” in order to enable themselves to improve their situation and to increase hope but “compare downward” in order to ameliorate their self esteem.

However, Wheeler and Miyake (1992) argue that while people may feel bad about upward social comparison, they more often choose to engage in upward social comparison. They argue that most of the rank order paradigm studies have documented upward comparisons (Gruder, 1977), especially when people are motivated to attain a goal (Wheeler, 1966) and even when ego defensive motives may be involved (Nosanchuk & Erickson, 1985).

Whether upward or downward, the conclusion of this section is that people compare. However, it is logical to assume that in some situations we are more likely to compare than in others, and that certain organizational processes are more likely than others to elicit comparison processes. On the next section I elaborate on my theoretical model and conceptual thinking connecting discretionary vs. rule-based outcomes allocation systems, social comparison and threats to human basic psychological motives.

## **CHAPTER 3: THEORY DEVELOPMENT**

### ***Discretionary outcome allocation: basic assumptions***

So how does a discretionary outcomes allocation work? As mentioned above, I make the assumption that in most situations there would not be a pure discretionary system – this situation would be too chaotic. In most situations there will be basic rules that determine outcomes. Those would be predetermined and known to the people at the receiving end of the outcomes. Those individuals will know that they receive an

outcome of X based on their 'eligibility rule'. In addition, in many situations, above the use of rules, the person allocating the outcomes can use his or her discretion to give a variable outcome ( $\epsilon$ ) that is not pre-determined and is usually based on an interaction with or at least an observation of the people for whom the outcomes are allocated. Therefore, the total outcomes for each person in a discretionary allocation system can be represented as:

**Outcome = X +  $\epsilon$ ,** Whereas x is the value determined by rules, and  $\epsilon$  is the value from discretion over and beyond the rules.

Is  $\epsilon$  always non negative? Here it is important to differentiate between different outcomes. When it comes to an 'all-or-none' outcomes (e.g. admission situations, where several people may satisfy the rules or objective criteria, but there is only one position), people can lose out from discretion (by not being chosen for the position even though they meet the objective admission criteria). Therefore,  $\epsilon$  can be negative and 'decrease' the outcome of the individual. When it comes to a continuous outcomes (such as the loan from the bank example described before),  $\epsilon$  would be positive or at least non-negative (as a person would not be deprived of the amount of loan he/she is entitled to receive based on the 'eligibility rule') and therefore at least on an absolute level people can only benefit from a discretionary situation. As I will elaborate below, comparison processes are likely to make people walk away from a discretionary outcome allocation regardless of whether  $\epsilon$  is positive or negative. However, showing that people walk away from a discretionary outcome allocation even when  $\epsilon$  is explicitly defined as non negative, will be a more interesting and a more conservative test of my theory and I will aim at demonstrating this in the lab experiment (Study 3a).

## ***Discretion, comparison to others, and psychological motives***

As a discretionary allocation decision is inherently uncertain and people at the receiving end of the outcomes do not really know what the discretionary decision is based upon, the uncertainty inherent in the situation is likely to elicit comparison processes or make the comparison to others more relevant. This would be in line with Festinger's (1954) original theory of social comparison processes that argues that people compare in order to reduce uncertainty (and therefore under uncertainty more comparison is likely to take place). If people compare more in a discretionary system, those comparisons are likely to elicit the fear that others would do better in a discretionary system. What is that fear really about? It is a threat to the fulfilment of the fundamental psychological motives I introduced in the last chapter.

A feature of the discretionary outcomes allocation system is that it creates variation in one's outcomes *relative* to outcomes of others. Why would this variation represent a threat to one of the psychological motives discussed above? I argue that when people compare to others, especially to others who satisfy the same 'eligibility rule' (which will be in line with Festinger's similarity hypothesis) they are more likely to fear that compared to others they will be able to secure less good outcomes, therefore jeopardizing their standing relative to others.

Surely, one could argue that people could perceive a discretionary allocation system as an opportunity to gain status (by being able to secure better outcomes based on discretion). However, given the uncertainty inherent in a discretionary allocation system, it is likely that the fear of loss of status will 'override' the hope to gain status. In fact, research suggests that people are more attuned to status loss and put greater effort when striving to prevent status loss than when striving to achieve higher status

(Pettit et al., 2010). In one of their experiments, Pettit et al., (2010) gave participants the opportunity to either gain status (by earning an additional point if they solve correctly a difficult problem) or to prevent themselves from losing status (by losing an additional point if they do not solve correctly a difficult problem). People in the status loss condition put more effort in the difficult problem (measured as amount of time spent on the problem) as opposed to people in the status gain condition, indicating that status loss was more of a concern than status gain.

The concern for losing status or relative standing in a group compared to others is therefore likely to make people walk away from a discretionary allocation system. This concern is also likely to be more pronounced for those who perceive the rules as benefiting them. For those people, status emerges from their higher eligibility that is based on rules and therefore discretion introduces variability that is more likely to risk their standing in the group. Showing that those who are more likely to satisfy the ‘eligibility rule’ are less likely to want discretion even when on the absolute level they can benefit from discretion, would lend support to the link between status maintenance concern and preference for discretion.

There is another feature that comes with a discretionary allocation system that relates to the agentic role of the person at the receiving end of the outcome in determining the outcome. The discretionary decision is made following an interaction with or at least an observation of the person whose outcomes are determined. What happens if compared to others (and especially compared to others who seem to satisfy the same ‘eligibility rule’) I do not manage to get as good outcome as others from a discretionary allocation decision? Since I had a role in determining this outcome, this failure compared to others is hard to tolerate, as it may reflect poorly on me, on my

interpersonal skills, on the way I am appreciated by others etc. Surely, one could argue that there is agency also with determining the rule-based eligibility criteria, and that in the same manner a failure in a rule-based allocation system can also create the same threats. However, I argue that the agentic role in a discretionary allocation system plays a more prominent role, as the fear is specifically that others who satisfy the same 'eligibility rule' will do better. One is benchmarked (in the eyes of oneself and in the eyes of others) against others with allegedly the same a-priori chances to secure a certain outcome, and is therefore expected to succeed as much as others. A failure to do so is likely to be attributed to some kind of incompetence. With rules, and especially since rules are clear and pre-determined it is easy to make other attributions, such as 'I wasn't motivated enough as others to secure those outcomes', or 'I didn't invest enough time in trying to secure those outcomes' etc., meaning that the agentic role is not necessarily attributed to incompetence and is therefore associated with less psychological threat.

What are the threats that are related specifically to this agentic role of the person at the receiving end of the outcomes in determining his/her outcomes? Those threats relate directly to the psychological motives I discussed above and would be a threat to one's ego or self esteem, a threat to one's status in a group, and a threat to one's affiliation needs.

Ego threat occurs "when favourable views about oneself are questioned, contradicted, impugned, mocked, challenged or otherwise put in jeopardy" (Baumeister, Smart, & Boden, 1996, p. 8, see also Campbell & Sedikides, 1999, p. 26). As Alicke and Sedikides (2011) posit, the self protection motive is the directive function of avoiding people to lose self-regard. People seem to exert much energy and

effort in order to maintain their self regard. Alicke and Sedikides (2009) also argue that psychological interests (such as security, love, social status etc.) are arranged in a hierarchy with global self esteem (representing the highest level of abstraction) at the top and event-specific interests at the bottom. The hierarchy of interests admits the possibility of “vertical spreading” of negative events throughout the hierarchy. Therefore a specific event (such as criticism from a close friend) can translate and “jump up” the hierarchy of interests ladder and serve as a real and concrete threat to one’s global self-regard. In the case of a discretionary allocation system, this specific event is the failure to achieve outcomes that are as good as what others with the same ‘eligibility rule’ have achieved. Therefore, not succeeding in a discretionary allocation system is akin to a failure in a task. This is likely to represent a threat to the self and devaluation of one’s self concept (Leary, Terry, Allen, & Tate, 2009). Avoiding this failure will matter to people even more than the possible success in this task (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001). Therefore, even though one could see an opportunity for self enhancement, or a ‘boost’ to one’s ego following success in a discretionary allocation system, my argument is that the costs associated with failures are too high and therefore the self protection motive ‘overrides’ the self enhancement motive.

Additional threat that directly relates to the agentic role of the person at the receiving end of the outcome in determining the discretionary outcome is a threat to one’s affiliation needs. From the perspective of the person at the receiving end of the outcome, how would a discretionary decision be made when many people satisfy the same ‘eligibility rule’ (for example in a school admission process there may be many individuals with the same background, same skills and same ‘proof of ability’ such as

exam scores, but then only some are being admitted following an interview process)? The subjective nature of a discretionary decision and the uncertainty regarding how exactly this decision is made can make people come to the very plausible conclusion, that those people who decided on the outcomes *following* an interaction with them and did not choose them, simply did not like them enough. This makes the ‘failure’ in a discretionary allocation system an interpersonal failure that is likely to undermine basic affiliation needs. Therefore, the fear that in a discretionary system, people were not able to receive good outcomes , based on their interaction with the decision maker, is likely to make people walk away from a discretionary system. The fear represents a threat to one’s affiliation need or the need to belong.

Finally, going back to the motivation to maintain status, but now applying it to the agentic role in discretion, I argue that if my failure to achieve good outcomes based on discretion is also known and visible to people in my group, there is an additional threat to my status in the group. In that case, the threat is not related to the final outcome but more to the process. The fact that I, compared to others with the same ‘eligibility rule’ did not manage to achieve as good an outcome, may reflect poorly on me (again as noted before, especially because I satisfy a certain ‘eligibility rule’ and am bench-marked against others who also satisfy this rule). Therefore, others could attribute my ‘failure’ in a discretionary allocation process to incompetence. Those attributions that others may make are a serious threat to my status within a group, and are likely to make me uneasy with a discretionary system. As mentioned before, one can argue that a discretionary situation might be an opportunity for me to demonstrate to others that I am more competent compared to others with the same ‘eligibility rule’, by showing that I manage to secure better outcomes based on discretion. However, the

need to preserve the status and deter from any possibility of status loss is likely to be stronger than the desire to gain status (Pettit et al., 2010).

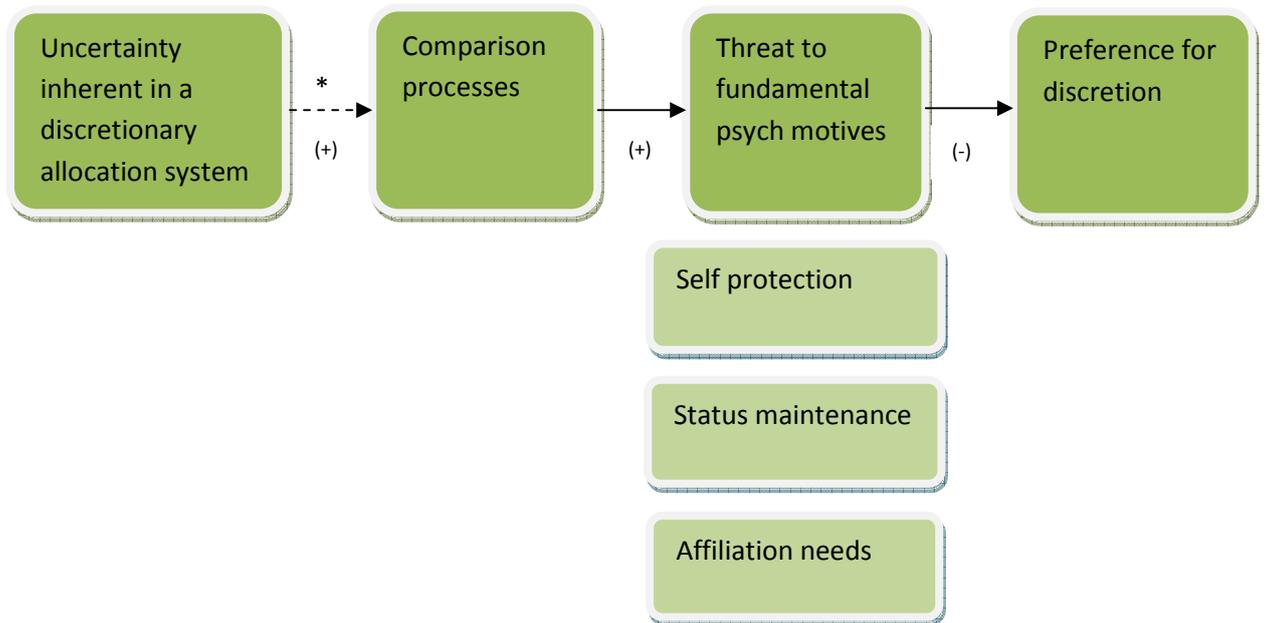
To sum up, a discretionary outcomes allocation system, with its inherent uncertainty, is likely to elicit comparison processes. Those comparison processes are likely to elicit the fear that others will do better in a discretionary system, a fear that is associated with a threat to fundamental psychological motives such as the need to protect one's ego, the need for affiliation and the need to maintain one's status in a group. In order to examine this prediction, in this work I aimed at eliciting or measuring comparison to others (or presence of others). If eliciting this comparison for people is likely to make people prefer less a discretionary system and prefer more a rule-based system (compared to when those comparisons are not elicited), this would lend support to my theory.

Therefore, I predict:

*The more people compare themselves to others the more they are likely to prefer rules over discretion in the determination of their outcomes*

This prediction will be examined in the first part of my empirical examination (Studies 1-3). In the second part (Studies 4-6) I will examine more specifically different psychological motives and their role in affecting people's preference for discretion vs. rules. Specific predictions will be provided for each study when I describe the rationale for the study.

Figure 3.1: The theoretical model



\* A link not examined empirically in the current work

### ***The relationship to fairness concerns***

As mentioned above, the notion of discretion is probably related to the concept of fairness. According to fairness heuristic theory people may perceive a discretionary authority to be less just (Tyler & Lind, 1992), one that allows more for the decision maker to exploit his or her decision latitude or make decisions in a biased manner. Therefore it is possible that people perceive discretion as less fair than rules and this could be the reason for their preference for rules over discretion.

Evidence suggests that people care about fairness and are willing to sacrifice economic gain in order to preserve fairness (see Guth, Scmittberger, & Schwarze, 1982; Kahneman, Knetsch, & Thaler, 1986). Bazerman (1993) explicitly talks about the dysfunctional aspects of social comparisons, in creating anger, jealousy, inefficiency, and missed opportunities (Salovey, 1991). Loewenstein, Thompson, and Bazerman

(1989) asked participants to assess their satisfaction from situations that presented them with an outcome to themselves and an outcome to another party. Their studies showed that interpersonal comparisons overwhelmed concerns for personal outcomes and that typical participants rated \$500 for the self and \$500 for the other person as more satisfactory than \$600 for the self and \$800 for the other person. Therefore when people are aware of the higher  $\epsilon$  of the other (in that example \$300) as opposed to their positive but smaller in value  $\epsilon$  (in that example \$100) they are less likely to prefer that situation over a situation of equitable distribution (that may yield them smaller gains in absolute terms).

However, one must remember that unlike the experiments described by Loewenstein et al., (1989) a rule-based system does not necessarily represent an equal distribution (and therefore may not be more fair) and in fact rules can be also perceived as more or less just. For example some people may perceive a progressive taxing system as just while others may not. Moreover it is important to remember as noted before that though heuristically people may think of a discretionary situation as less fair (Tyler & Lind, 1992), in fact a discretionary situation may enhance fairness or justice concerns by allowing for more voice and participation and therefore more responsiveness to individual needs (an element that was not captured in Loewenstein et al., (1989) as the allocation was not based on an interaction with the person at the receiving end of the outcomes).

It is therefore important in my empirical examination to look at fairness concerns and fairness perceptions of the process for two reasons: First, the same discretionary system can be perceived as more or less fair (depending on how people perceive the way the discretionary decision is made), and I would therefore like to

document the effect of comparison processes on preference for discretion, beyond any process idiosyncratic concerns for fairness. Secondly, it may well be that a person saying that a procedure is not fair is one's rationalization of feeling uncomfortable about a situation that elicits threat. The threat to one's fundamental motivations can be unconscious and manifest on the explicit level as deeming the process to be unfair. This will be in line with literature on the egocentric view of fairness (e.g. Fehr & Schmidt, 1999; Loewenstein, Issacharoff, Camerer, & Babcock, 1993; Thompson & Loewenstein, 1992). Therefore in most of my empirical examination I will assess people's perceptions of the fairness of the process and investigate the relationship of the fairness concept to the phenomenon of discretionary allocation system.

## **CHAPTER 4: EMPIRICAL EXAMINATION**

### ***Overview of studies***

My empirical examination is divided to two main parts: In the first part (Studies 1-3) I look at the relationship between comparison processes (operationalized as salience of the presence of others) and preference for discretion using different methodologies and across different contexts. The main aim of this part is to establish the effect of salience of others on preference for discretion, with the purpose of showing that if by making others' presence more salience people are less likely to want discretion, then there is something in the social context of discretion that drives people away from it. The first part also focuses mainly on the self protection motive that I hypothesize is threatened in a discretionary allocation system.

In the second part of my empirical examination (Studies 4-6), building on the assumption that comparison processes are ubiquitous and therefore will usually accompany a discretionary allocation system, I move to explore the other two

psychological motives: status maintenance concerns (Studies 4-6) and affiliation needs (Study 6) that I predict are threatened in a discretionary allocation system.

More specifically, Study 1 is a field study conducted in large professional services organization, in which I document the basic effect of comparison processes on preference for discretion. In this study I measure employees' *chronic tendency to compare* themselves with others and examine the relationship between this tendency to preference for discretion in performance evaluation, bonus allocation and portfolio assignment. Studies 2a and 2b are scenarios studies in which *I manipulate the comparison processes* by making the presence of others in the situation more salient. In Study 2a I look at the effect of salience of others on preference for discretion and in Study 2b I examine whether a threat to the self protection motive explains preference for rules. Studies 3a-3c are laboratory experiments where *I manipulate* the presence of others and also measure a *behavioral indicator* for preference for discretion. In those studies I also measure people's perceptions about their 'eligibility rule' trying to gauge the mechanism of maintaining one's status in the group. Finally, I also create in those studies a situation in which people can only benefit from the discretionary system. Study 4 is a scenarios study that taps the mechanism of maintaining one's relative standing in the group by measuring people's status maintenance concerns and the link to preference for discretion. In Study 5 (scenarios study) I extend the status perspective by looking at how felt status affects people's preference for discretionary allocation systems. Lastly, in Study 6 (scenarios study) I manipulate both status concerns and affiliation concerns, and look at them in combination predicting the relationship to preference for discretion. The studies are described below.

## ***Study 1***

This study is a field study in which I establish the basic effect of comparison processes (measured as an employee's tendency to compare to others) on preference for discretionary decision processes.

### *The organizational context*

This study was conducted with a global professional services firm. I first conducted a limited number of interviews and one focus group with employees in the company. The purpose of those interviews was two-fold: I wanted to hear first-hand about employees experience, thoughts, and feelings about the discretionary part of decisions that regard important outcomes to them, in order to gauge whether the phenomenon was of a real interest in organizations. Secondly, I wanted to better understand the organizational context in order to build a meaningful survey for employees. Specifically I asked employees to think back about their last performance evaluation, and asked about their perceptions of the process: how clear were the performance evaluation criteria? How fair was the process? To what degree do they perceive the process to be based on the discretion of the decision-maker? And to what extent they were happy with the process. I asked similar questions about bonus allocations and portfolio assignment. Employees interviewed were sampled from different levels in the organization and across different divisions.

While conducting those interviews was by no means a qualitative study, it was very useful in terms of getting to know the organizational context and also reassured me that this question is very relevant and that people are sensitive (and indeed some reacted quite emotionally) to the way their outcomes are determined. The interviews also helped me in building a survey that was meaningful and engaging for employees.

All interviews were transcribed and coded and themes identified in the interviews were *clarity, fairness, standardization, objectivity, consistency, relativity and likeability and favouritism.*

Something interesting that was apparent from the interviews was the gap between how management perceived the discretionary decision making process and the way that employees perceived it. It seemed as if top management was proud of the discretionary component of the decision making process and also thought it was well balanced with the more rule-based component of the decision process. However, employees seemed more resentful toward the discretionary decision process and perceived it usually to be based on interpersonal connections and favouritism.

The quotes below are taken from interviews with top management:

*“... If you are asking for feedback on the “How” as much as you are on the “What” it is inevitably subjective. We have criteria that we use as a framework for feedback. The performance appraisal is an art as much as a science.”*

*“... the minute I had been transparent about how it worked they were entirely conformable with it. So I do think we maintain a reasonably healthy level of discretion at point of decision for the individual.”*

In contrast, this is what employees said:

*“... But essentially, they test you on how much people like you and it was made quite clear to me that if your manager doesn't care for you or doesn't stand up for you then you wouldn't get a good rating and if your XXX doesn't really like you then you are probably not going to get a good rating either”*

*“No, it is something I do not like to admit, but it is entirely based on personal preference. If someone likes you, you will be on their project and if someone dislikes you, you will never be on their project”*

As exemplified in those examples, there seems to be some resentment toward discretion, and indeed in the survey (described next) the ‘push’ towards rule was very apparent.

### *The survey*

The main purpose of the survey was to examine my main predication that salience of others is likely to make people less tolerant to discretionary systems. To this end I assessed in this survey employees’ tendency to compare to others at their workplace. In the first part of the survey I asked employees about performance evaluation, bonus allocation and portfolio assignment processes. For each of these processes I asked employees about their perceptions of the process regarding how much it is rule-based versus discretionary, and about their preferences. In the second part of the survey I assessed the independent variable of comparison orientation. The measures are described below. The survey was administered to a sample of 82 employees, mean age was between 30-40 (age was measured on a rank-order scale), and 58 percent were females.

### *Measures*

#### *Independent variable:*

*Social Comparison Orientation* – To measure comparison orientation, I used a three item measure adapted from Gibbons and Buunk’s Social Comparison Orientation Scale (Gibbons & Buunk, 1999). The three items used were: (1) *I always pay a lot of*

*attention to how I do things at work compared with how others do things; (2) If I want to find out how well I have done something, I compare it to what others have done; and (3) I often compare my interpersonal skills with other people's interpersonal skills.*

Answers were marked on a 1-7 Likert scale (1=not at all true, 7=very true) (Cronbach's alpha = .77).

#### *Dependent variable:*

*Preference for discretion* – Preference for discretion was measured using three questions: (1) *Would you prefer the performance evaluation system to be more rule-based or more at the discretion of your main evaluator?* (2) *Would you prefer the bonus allocation process to be more rule-based or more at the discretion of your employer?* (3) *Would you prefer the portfolio/client allocation process to be more rule-based or more at discretion of your manager?* (all questions asked on a scale of 1 -7, 1=more rule-based, 7=more discretionary, such that higher scores represent stronger preference for discretion-based decisions). I created a composite measure of preference for discretion by averaging the responses on those three questions (Cronbach's alpha = .65).<sup>3</sup>

#### *Control variables*

*General fairness concerns* - Since as elaborated before fairness could be heuristically connected to the notion of discretion I also measured employees' general concern for fairness, using a seven items scale adapted from Pillutla, Law, and Lee (1997). Examples for items are: (1) *It is important to me that the world is fair.* (2)

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<sup>3</sup> Since the reliability score was not high and also since I thought it would be interesting to look at differential effects on different outcomes, in the results section I report both results using a composite measure across all outcomes (average) and also report effects for each outcome separately.

*Unfairness bothers me.* Participants marked on a 1-7 Likert scale to what extent they agree with the items (1=not at all agree, 7=totally agree) (Cronbach's alpha = .89).

*Perceived fairness* - I also measured how fair employees currently perceive those processes, to see whether the perceived fairness of the process affects their preference for the process being more discretionary or rule-based in nature. Employees who perceive the process as more fair are likely to be more tolerant to accept discretion. Participants therefore rated on a 1-7 Likert scale how fair they perceive each of the processes (performance evaluation, bonus allocation, and portfolio/client assignment) (1=not at all, 7=to a large extent). As with the preference measure I created a composite measure by averaging the responses on those questions across outcomes (Cronbach's alpha = .60)<sup>4</sup>.

Additional control variables were age (1=under 20, 2=20-30, 3=31-40, 4=41-50, 5=51-60, 6=over 60), gender (0=male, 1=female), geographic location (0=the large city where the organization is headquartered, 1=regional), tenure (1=1-3 years, 2=4-5 years, 3=6-10 years, 4=11-20 years) income level (1=up to 25K a year, 2=26-35K, 3=36-45K, 4=46-55K, 5=56-75K, 6=76-95K, 7=over 96K) , rank given on the last performance evaluation (1=best, 4=poorest), and whether the employees received bonus in the last bonus allocation process (0=no, 1=yes).

## *Results*

Means, standard deviations and correlations among the study variables appear in Table 4.2. I first looked at the descriptive results showing across all employees their perceptions of the current situation vs. their preference. This analysis clearly

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<sup>4</sup> As with the preference measure, and especially given this low reliability score I will report also separate analysis of each outcome taking into account the relevant fairness perception score.

exemplified the ‘push’ from the side of the employees towards more rules and less discretion. Employees in general perceived the decision processes to be more discretionary in nature (Mean = 5.09, SD=1.27, Median = 5), but reported to prefer it to be more rule-based in nature (Mean = 3.40, SD=1.48, Median = 3.16). A paired sample t-test showed that the difference in means between how employees currently perceive the process (whether more rule-based or discretionary in nature) and how they would prefer it to be, was significantly different ( $t(76) = -6.61, p < .01$ ). This pattern of results was consistent when looking at each outcome (performance evaluation, bonus allocation, portfolio assignment) separately and the results appear in Table 4.2 below.

*Table 4.1: comparison between how employees currently perceive the different processes and how they prefer them to be (1=more rule-based; 7=more discretionary), exemplifying the general ‘push’ towards rule*

Allocation process	Mean Current/preference	SD Current/preference	Median Current/preference	Difference between current and preferred situation
Performance evaluation	5.10/3.28	1.55/1.82	5/3	$t(71)=5.48, p < .01$
Bonus allocation	4.49/2.70	1.87/1.63	5/2.5	$t(67)=5.40, p < .01$
Portfolio assignment	5.98/4	1.36/1.84	7/4	$t(52)=6.14, p < .01$

Table 4.2: Means, Standard Deviations, and Correlations among study variables (Study 1)\*

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
1. Last performance evaluation ranking	1.98	.59										
2. Bonus received (yes/no)	.91	.28	-.38									
3. Income level	3.69	1.76	.08	.18								
4. Tenure level	2.61	1.16	-.03	.01	.36							
5. location	.49	.50	-.04	-.23	-.36	.01						
6. Age level	2.90	1.04	.01	.13	.48	.42	-.01					
7. Gender	.61	.48	.03	-.06	-.26	.05	.08	-.01				
8. Social Comparison Orientation	4.79	1.39	.07	.07	.01	-.21	-.06	-.12	-.15			
9. Perceived fairness of the processes	3.66	1.35	-.16	.19	.18	.21	.01	.29	-.01	.01		
10. General fairness concerns	5.83	1.00	-.03	-.14	-.05	.01	.07	-.06	<.01	.19	-.03	
11. Preference for discretion	3.39	1.48	-.17	.03	.09	-.02	-.05	-.05	-.04	-.23	.33	-.18

\* Sample size ranged from 78 to 82 because of missing data. Correlations  $\geq .23$  are significant at  $p < .05$ ; Correlations  $\geq .29$  are significant at  $p < .01$ ;

To test my main prediction that people high on social comparison orientation are less likely to prefer a discretionary system I run a three-step regression (after centering all continuous variables): I first run a simple OLS regression predicting preference for discretion (averaged across all outcomes) from the more demographic control variables (age, gender, geographic location (main city/regional), and income level). None of those control variables was significant. In the second stage, I have added general fairness concerns and perceived fairness. As can be seen in Table 4.3, general fairness concerns did not have a significant effect, but perceived fairness had a positive effect on preference for discretion ( $b=.51, p<.01$ ). Not surprisingly, the more fair employees perceive the current processes (that seems to be more discretionary in nature) the more they are likely to prefer discretion. In addition, in this model, age had a significant effect such that older employees preferred less discretion ( $b=-.45, p<.05$ ). Lastly, I added Social Comparison Orientation to the regression analysis, and supporting my main prediction, comparison orientation had a significant effect ( $b=-.30, p<.01$ ) and this model explained significantly better preference for discretion compared to the second model ( $\Delta R^2=.08, p<.01$ )<sup>5</sup>. In this model perceived fairness also had a significant effect ( $b=-.54, p<.01$ ) but the effect of comparison orientation existed above and beyond this effect. Also in this model age stayed a significant predictor of preference for discretion ( $b=-.49, p<.05$ ) (See table 4.3).

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<sup>5</sup> Due to missing data the analysis included only 72 employees.

*Table 4.3: Results of regression analysis prediction preference for discretion in the field study (Study 1)*

Variables	Model 1 -Preference for discretion	Model 2 – Preference for discretion	Model 3 – Preference for discretion
Income level	.14	.10	.13
Tenure	.04	.05	-.03
Location	-.19	-.25	-.29
Age	-.21	-.45*	-.49*
Gender	.20	.16	.07
Perceived fairness		.51**	.54**
Fairness concerns		-.27	-.18
Social Comparison Orientation			-.30**
Model F=	.39	2.95*	3.73**
$\Delta R^2 =$		.21**	.08*

As noted above the reliability score of the dependant variable of preference for discretion when averaging across the different outcomes (performance evaluation, bonus allocation and portfolio assignment) was relatively low, suggesting that there might not be a general score across outcomes that represent's employees' preference for discretion and that the outcome itself plays a role. I therefore also performed separate analyses predicting preference for discretion for each of the outcomes separately. I first looked at performance evaluation with the list of variables listed above, including fairness perception specifically for this process and including the rank given in the last performance evaluation. The results were in general consistent with the general pattern except for an effect that emerged for location. In the first step of the regression there was a marginally significant effect for location ( $b=-.87$ ,  $p<.1$ ), indicating that those in the regional offices are less likely to prefer discretion used in the performance evaluation process compared to those in the large office where the organization is headquartered. There was also a marginally significant effect for rank given in the last performance evaluation ( $b=-.68$ ,  $p<.1$ ), suggesting that those given poor performance ranking are less likely to prefer discretion. In the second step, adding general fairness concerns and perceived fairness of the process, general fairness concerns did not have an effect, and perceived fairness had a positive significant effect ( $b=.38$ ,  $p<.05$ ), while location stayed marginally significant. Rank in the last performance evaluation had no effect. In the last step, social comparison orientation had a negative significant effect ( $b=-.51$ ,  $p<.01$ ), and this model explained significantly better preference for discretion compared to the second model ( $\Delta R^2=.13$ ,  $p<.01$ ). It is worth noting that in this last model, perceived fairness was still significant ( $b=.50$ ,  $p<.01$ ), but most importantly the effect of social comparison existed above and beyond the effect of perceived fairness. Also in the last model, location became significant

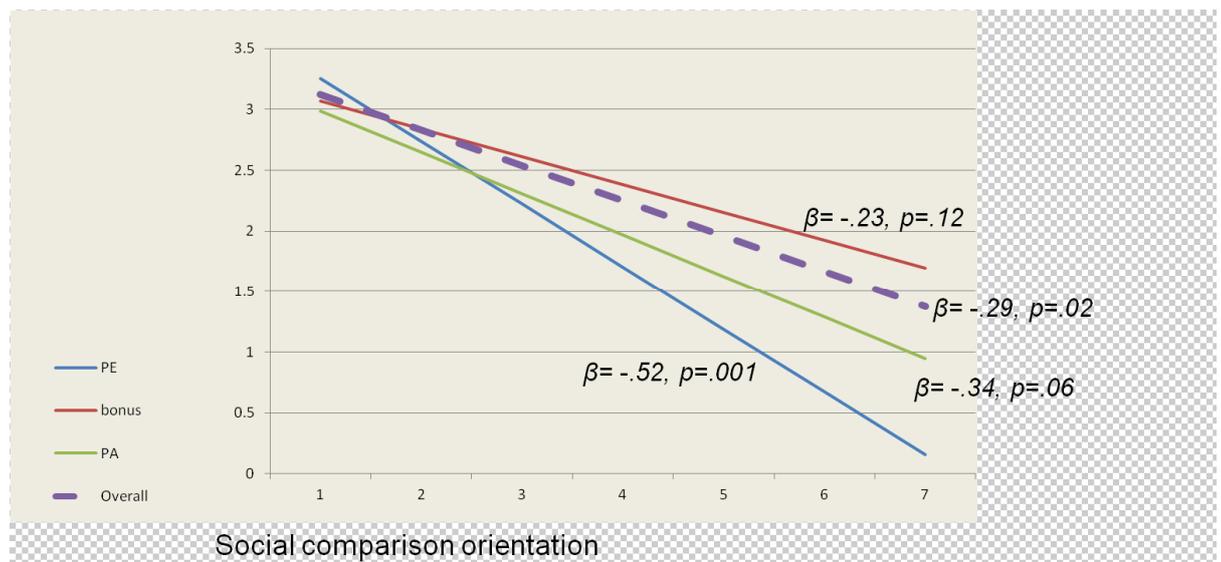
showing that those in the regional offices were significantly less likely to prefer discretion in the performance evaluation process compared to those in the main office ( $b=-1.00, p<.05$ ). There was not effect for rank in the last performance evaluation.

I then looked at bonus allocation with the list of variables listed above, including fairness perception specifically for this process and including whether employees received a bonus payment in the last bonus allocation process. The results were in general consistent with the general pattern except for an effect that emerged for location and the fact that comparison orientation was only approaching significant level. In the first step of the regression the only significant effect was for location ( $b=1.36, p<.01$ ), indicating that those in the regional offices are less likely to prefer discretion used in the bonus allocation process. In the second step, adding general fairness concerns and perceived fairness of the process, general fairness concerns did not have an effect, and perceived fairness had a positive marginally significant effect ( $b=.24, p<.1$ ), while location stayed significant ( $b=-1.38, p<.01$ ). In the last step, social comparison orientation had a negative effect, but this effect only approached significance level ( $b=-.23, p=.12$ ). In this last model, perceived fairness was still marginally significant ( $b=.25, p<.1$ ), and location was still significant ( $b=-1.35, p<.01$ ).

Lastly I looked at portfolio assignment with the list of variables listed above, including fairness perception specifically for this process. The results were in general consistent with the general pattern except for a marginally significant effect that emerged for gender and the fact that comparison orientation was only marginally significant. None of the control variables emerged as significant in the first step. In the second step, adding general fairness concerns and perceived fairness of the process, general fairness concerns did not have an effect, and perceived fairness had a positive

significant effect ( $b=.47, p<.01$ ), and gender was marginally significant ( $b=.95, p<.1$ ) suggesting that men were less likely compared to women to prefer discretion in the portfolio assignment process. In the last step, social comparison orientation had a marginally significant negative effect ( $b=-.34, p=.06$ ). In this last model, perceived fairness was still significant ( $b=.49, p<.01$ ), and gender stayed marginally significant ( $b=.94, p<.1$ ). (see figure 4.1 for a graph that shows the relationship between social comparison orientation and preference for discretion).

*Figure 4.1: Preference for discretion (centered) as a function of Social Comparison Orientation (controlling for variables mentioned in the text)\* (Study 1)*



\*PE = performance evaluation; PA=portfolio allocation, Overall [dotted line] – across all outcomes

### Discussion

The results of Study 1 suggested that employees who chronically compare themselves to others (and therefore for them the presence of others is more salient) are less likely to prefer discretion when it comes to important outcomes at the workplace.

In addition, this effect existed beyond perceived fairness of the process. The results of this study support my prediction that the more people compare to others the less likely they are to prefer discretion in the allocation of important outcomes.

In this study comparison processes were measured as employees' tendency to compare themselves to others. In the studies that follow I aimed at manipulating the comparison process (rather than measuring it) and looked at both self reported preference but also an actual choice of rule-based vs. discretionary allocation processes. Additionally, Study 1 did not allow me to look at the mechanism at the basis of the relationship between comparison processes and preference for discretion. This is something I was aiming to look at in the series of laboratory studies described below.

Studies 2a and 2b are scenarios studies in which I manipulated the comparison process by making the presence of others more or less salience. In Study 2a I establish the main effect of the presence of others on preference for discretion. In Study 2b I also aim to look at the motive of self protection that I hypothesize to stand in the basis of the negative relationship between presence of others and preference for discretion.

### ***Study 2a***

As noted above in Study 2a I manipulated the comparison process by making the presence of others more or less salient. I also manipulated whether people start initially with a discretionary or a rule-based system. My theorization is built around the idea that when experiencing a discretionary allocation system, people experience the threat that comes with discretion that relates to the comparison to others. Therefore my expectation for this study is that when people start with a discretionary system this is when the presence of others makes them less likely to prefer discretion. However, when

they start by being bound to a rule-based system they do not experience this threat and in that case salience of others should not have an effect on preference for discretion.

Those are the predictions I am testing in the current study.

## *Method*

### *Participants and design*

Data were collected on-line from 71 participants, mostly students from universities in the UK. Average age was 24.26 (SD = 6.68), 70.4% were female. Participants were randomly assigned to one of two conditions: High salience of others (n=34) and low salience of others (n=37). In addition participants were randomly assigned to one of two conditions: Starting from a discretionary system (n=35: n=18 in the high salience of others and n=17 in the low salience of others) and starting from a rule-based system (n=36: n=19 in the high salience of others and n=17 in the low salience of others). Participants then read three scenarios and marked their preferences in each scenario. Salience of others was manipulated as will be elaborated below. In the end of the experiment participants completed measures of fairness concerns and some demographics details (age, gender). In the end of the survey participants were debriefed and thanked for their participation. They were paid £ 5 worth Amazon vouchers for their participation.

### *Independent Variables*

#### *Salience of others*

Salience of others was manipulated inherently within the scenarios. In the low salience of others condition participants read scenarios which depicted them in a situation in which outcomes could be based on objective criteria (i.e. rule-based

system) or at discretion of another person (but after taking into consideration the objective criteria). The scenarios did not mention any other people in the situation. In the high salience condition, participants read exactly the same scenarios but the scenarios referred to them alongside other people in the situation. Also participants read an additional sentence that explained that with the discretion option people that meet the same objective criteria may receive different outcomes. By adding this sentence participants were “forced” to think in a relative way, meaning comparing their outcomes to those of others. An example for one of the scenarios in the low salience of others is:

*“Imagine that YOU are a patient waiting to see a surgeon for an elective dental implant surgery in one of the NHS hospitals. Currently, in order to see a surgeon, you need to meet and talk with the General Practitioner first. The General Practitioner then has the discretion to decide whether you are eligible for a surgeon appointment and how much time you need to wait for it based on his/her meeting with you (but after taking into consideration objective criteria such as age and medical history).*

*A change in this system is suggested such that you will be assessed only on the basis of objective criteria such as age and medical history. Then, a GP who uses a pre-programmed algorithm will assign a score that determines if and when you can see a surgeon. Therefore, your eligibility to see a surgeon will be based only on those objective criteria.”*

An example for a scenario in the high salience of others condition is:

*“Imagine that YOU AND A NUMBER OF OTHER PATIENTS are waiting to see a surgeon for an elective dental implant surgery in one of the NHS hospitals.*

*Currently, in order to see a surgeon, you and the other patients need to meet and talk with the General Practitioner first. The General Practitioner then has the discretion to decide whether you and the other patients are eligible for a surgeon appointment and how much time you and others will need to wait for it based on his/her meeting with you and with the other patients (but after taking into consideration objective criteria such as age and medical history). Therefore, people who are similar on the objective criteria may have different waiting times.*

*A change in this system is suggested such that you and the other patients will be assessed on the basis of objective criteria such as age and medical history. Then, a GP who uses a pre-programmed algorithm will assign a score that determines if and when you and others can see a surgeon. Therefore, your and other patients’ eligibility to see a surgeon will be based only on those objective criteria.”*

The other two scenarios were (1) a scenario describing a determination of salary and (2) a scenario describing the admission process for graduate programs in one of the universities in London. The other two scenarios appear in Appendix 4.1.

### *Order*

Order referred to whether participants read that the current system is a discretionary system and the change suggested is to a rule-based system (as in the scenario above), or whether they read that the current system is a rule-based system and the change suggested is to a discretionary system. As suggested above, I predicted that only when participants read about being in a system that is currently discretionary in

nature, they feel the threat that comes with the presence of others, but not when they read about being in a rule based system with a suggested change to a discretionary system.

### *Dependent variable*

#### *Preference for discretion*

After reading the scenarios participants were asked to mark on a scale of 1 to 7 (1=not at all, 7=to a large extent) to what extent they would like outcomes to be determined as before the change (so when they started with a discretionary system and the change was to a rule-based system this question represented preference for discretion and when they started with a rule-based system this question represented preference for rules).

### *Control*

#### *Fairness*

In order to control for fairness concerns, and to make sure the manipulation was not a manipulation of fairness I also assessed participants general concerns for fairness and also specifically for procedural justice. For general fairness concerns I used the same 7 items scale adapted from Pillutla, Law, and Lee (1997) and described in Study 1 (Cronbach's alpha = .88). To assess procedural justice concerns I used a 7 items scale adapted from Colquitt's (2001) measure of procedural justice. Examples for items are: (1) *It is important to me that the procedures used to determine my outcomes are applied consistently* (2) *It is important to me that the procedures used to determine my outcomes are free of bias.* (Cronbach's alpha = .84).

## *Results*

Before analyzing my main prediction connecting salience of others and preference for discretion I first looked at whether the manipulation of salience of others had any effect on participants' reported general fairness concerns or procedural justice concerns. I conducted a Multivariate Analysis of Variance, with general fairness concerns and procedural justice concerns as the dependant variables and salience of others, order, and the interaction between salience of others and order as the independent variables. None of the main effects or the simple effects emerged as significant, concluding that the manipulation of salience of others did not have an effect on fairness concerns. I therefore did not include those measures as covariates in my main analysis. Age and gender also did not have an effect on preference for discretion and were therefore not included in the analysis.

To test my prediction that people for whom others are made salient are less likely to prefer discretion, I first reverse-scored the responses when they represented preference for rules such that they represent preference for discretion. I then averaged the responses across all scenarios to first look at the general preference for discretion across scenarios<sup>6</sup>. I then performed a Univariate Analysis of Variance, with preference for discretion as the dependent variable, and salience of others, order and the interaction between salience of others and order as the independent variables. Order had an effect such that those who started reading about a discretionary system were more likely to prefer discretion ( $M_{\text{starting with discretion}} = 4.68$ ,  $SE = .20$ ,  $M_{\text{starting with rules}} = 3.98$ ,  $SE = .19$ ;  $F(1,67) = 6.15$ ,  $p < .05$ ,  $\eta^2 = .08$ ), an effect that most likely represents a

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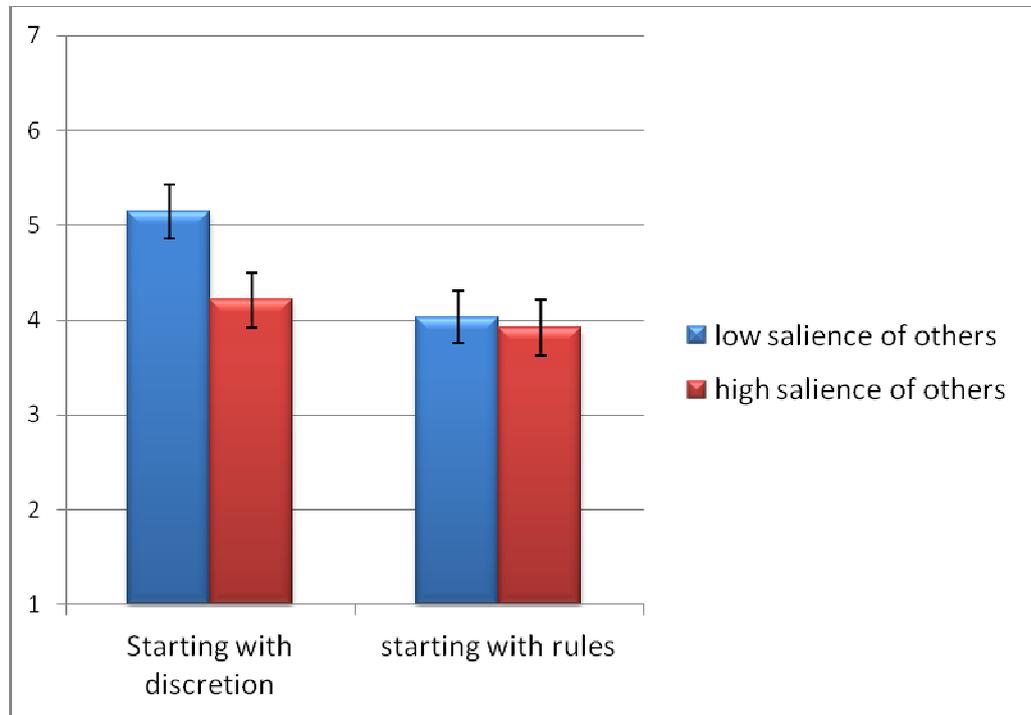
<sup>6</sup> As with the previous study, reliability score was low (Cronbach's Alpha = .58). I will therefore also report the analysis when taking into account the three separate scenarios.

status quo bias. Salience of others had a marginally significant effect such that those in the high salience of others condition preferred less discretion ( $M = 4.07$ ,  $SE = .20$ ) compared to those in the low salience of others condition ( $M = 4.6$ ,  $SE = .19$ ) ( $F(1,67) = 3.4$ ,  $p = .07$ ,  $\eta^2 = .05$ ). The interaction term of order and salience of others was not significant ( $F(1,67) = 2.08$ ,  $p = .15$ ,  $\eta^2 = .03$ ), but looking at the simple effects confirmed my prediction<sup>7</sup>. Within the condition of those who started with a discretionary system, there was a significant effect for salience of others such that in the high salience of others condition participants preferred significantly less discretion ( $M = 4.21$ ,  $SE = .29$ ) compared to those in the low salience of others condition ( $M = 5.15$ ,  $SE = .28$ ) ( $F(1,67) = 5.33$ ,  $p < .05$ ,  $\eta^2 = .07$ ). However, within the condition of those who started with a rule-based system there was no effect for salience of others ( $M_{\text{high salience of others}} = 3.92$ ,  $SE = .29$ ,  $M_{\text{low salience of others}} = 4.03$ ,  $SE = .27$ ;  $F(1,67) = .08$ ,  $p = .77$ ). This pattern of results appears in Figure 4.1.

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<sup>7</sup> There are scholars advocating looking at simple effects and contrasts analysis even when the interaction term is not significant, as those can be insightful when are aligned with the theoretical framework and prediction (see Rosenthal & Rosnow, 1985).

Figure 4.2: Preference for discretion as a function of salience of others and the starting system (Study 2a) [error bars represent  $\pm SE$  (standard errors)]



As noted before, since the reliability score for preference for discretion was low, it was important to also perform an analysis that takes into account the response for each scenario. I therefore performed a repeated measures analysis with preference for discretion for each scenario as the within subjects factor and salience of others and order as the between subjects factors. The results showed a main effect for scenario ( $F(2, 66)=7.03, p<.01, \eta^2=.17$ ) and pairwise comparisons suggested that preference for discretion in the salary scenario was significantly lower ( $M=3.87, SE=.19$ ) compared to preference for discretion in the health care scenario ( $M=4.43, SE=.18$ ) and to preference for discretion in the school admission scenario ( $M=4.68, SE = .21$ ). There was no difference in preference for discretion between the health care scenario and the school admission scenario. The three way interaction of salience of others, scenario and order was not significant ( $F(2,66)=1.9, p=.16, \eta^2=.05$ ), but as before given it did

approach significance level I still looked at the simple effects for the interaction between order and salience of others for each of the scenarios. When participants started with a discretionary system, in the health care scenario, those in the high salience of others condition preferred discretion significantly less ( $M=4.23$ ,  $SE = .37$ ) compared to those in the low salience of others condition ( $M=5.28$ ,  $SE = .36$ ) ( $F(1,67) = 4.07$ ,  $p < .05$ ,  $\eta^2 = .06$ ). When participants started with a discretionary system, in the school admission scenario, those in the high salience of others condition preferred discretion less ( $M=4.53$ ,  $SE = .43$ ) compared to those in the low salience of others condition ( $M=5.66$ ,  $SE = .42$ ) and this effect was marginally significant ( $F(1,67) = 3.57$ ,  $p = .06$ ,  $\eta^2 = .05$ ). Finally, in the salary determination scenario, while the pattern of results was similar there was no significant difference between preference for discretion in the high versus low salience of others conditions when participants started with a discretionary system. When starting with a rule-based system, across all scenarios there was no significant difference between the low and the high salience of others conditions. To sum, when looking at the effects of order and salience of others separately for each scenario, the health care and school admission scenarios are consistent with my prediction such that high salience of others will make people less likely to want discretion only when starting with a discretionary system. The salary scenario did not confirm this prediction and was actually the scenario in which in general participants preferred less discretion in (quite similar to the pattern of results in the field study).

### *Discussion*

The results of Study 2a showed that people for whom others were made salient conceptually were significantly less likely to prefer discretion compared to people for

whom presence of others in the situation has not been made salient. One must remember that the manipulation of salience of others was a very subtle one: participants in both conditions read the same scenarios and were asked the same question; the only difference between conditions was that in the high salience of others condition participants were made to think about others in the situation and read an additional sentence that said that different people may receive different outcomes, which essentially is equivalent to saying that the decisions would have a discretionary basis. Apparently just making this ‘clarification’ which makes salient that we are not talking only about one’s own outcomes but also about outcomes of others, makes people more reluctant to choose a discretionary system.

The results of this study also show that the effect of salience of others emerges only when participants read a scenario that puts them initially in a discretionary situation. Only in that case, according to my theorization, participants can experience the threats that are associated with a discretionary system. When being forced to be in a rule based system initially this threat is not experienced (only forecasted) and therefore the effect of salience of others does not emerge (this prediction will be empirically tested again in Studies 3a and 3c).

Studies 1 and 2a looked at the main effect of comparison processes on people’s preference for discretionary vs. rule-based outcome allocation systems. In Study 2b I start exploring the mechanism of threat that I predict to be in the basis of the negative relationship between salience of others and preference for discretion. I chose to look at self protection or ego threat in this study, which is elaborated below.

## ***Study 2b***

In Study 2b I aim to explore the mediating role of the self protection motive in the relationship between salience of others and preference for discretion. I chose to use a mediation-by-process design (Spencer, Zanna, & Fong, 2005) in order to explore this question. In this design, one manipulates the process, independently of the independent variable with the aim of showing a moderation effect that will suggest a mechanism. In my case it will be a manipulation that relates to self protection, or more specifically a self affirmation manipulation.

Self affirmation theory (Sherman & Cohen, 2006; Steele, 1988) suggests that a strategy that restores the integrity of the self following a threat, might reduce the effect of this threat and therefore eliminate the need to respond in a defensive manner. If salience of others in a discretionary outcome allocation system creates a threat to one's self concept (as one fears that he/she would not be able to secure as good outcomes as others in this system), and the defensive response is to shy away from a discretionary system and prefer a rule-based system, a self affirmation manipulation should in theory reduce this threat and not make people more likely to prefer a rule-based system over a discretionary one. Therefore, a pattern of results that shows that when people are affirmed there is no difference in preference for discretion between low and high salience of others, while this difference emerges when people are not affirmed, would lend support to the motive of self protection that is likely to be threatened in a discretionary outcome allocation system.

## *Method*

### *Participants and design*

Data were collected on-line from 82 participants, mostly students from universities in the UK. Average age was 25 (SD = 5.47), 60% were female. Participants were randomly assigned to one of two conditions: High salience of others (n=41) and low salience of others (n=41). In addition participants were randomly assigned to one of two conditions: affirmation condition (n=40: n=19 in the high salience of others and n=21 in the low salience of others) and control (no affirmation) condition (n=42: n=22 in the high salience of others and n=20 in the low salience of others). Participants first completed the self affirmation manipulation (described below) and then read the three scenarios and marked their preferences. In the end of the survey participants were debriefed and thanked for their participation. They were paid £ 5 worth Amazon vouchers for their participation.

### *Independent Variables*

#### *Salience of others*

Salience of others was manipulated in the same way it was manipulated in Study 2a, as part of the scenarios.

#### *Self affirmation*

The self affirmation task was adapted from previous research (e.g. Cohen, Aronson, & Steele, 2000; Critcher, Dunning, & Armor, 2010; Shira & Martin, 2005). In the affirmation condition participants were presented with a list of five life domains (sports and physical health, success at work, religious fulfilment, aesthetics

(appreciation for art and beauty), and physical attractiveness). Participants were asked to rank those domains in order of their importance to them (1=most important domain; 5=least important domain). Based on their choice of the most important domain, on the next screen participants were asked to write two-three personal experiences in which this specific life domain was important for them and made them feel good about themselves. In the control condition, participants were asked to rank- order 5 candle scents (Critcher et al., 2010) and then to explain why they like the most the one that was ranked the highest.

### *Dependent variable*

#### *Preference for discretion*

After reading the scenarios participants were asked to mark on a scale of 1 to 7 (1=not at all, 7=to a large extent) to what extent they would like outcomes to be determined as before the change. In this study I did not manipulate the order of presentation and based on the results of Study 2a all participants were presented with a discretionary system and the suggested change was for a rule based system. Therefore an answer to that question represented preference for discretion.

### *Results*

To test my prediction that when affirmed participants should not feel the threat that comes with the salience of others in a discretionary system and therefore should not prefer less discretion compared to those for whom the presence of others was not salient, I first averaged the responses across all scenarios to look at the general

preference for discretion across scenarios<sup>8</sup>. I then performed a Univariate Analysis of Variance, with preference for discretion as the dependent variable, and salience of others, affirmation and the interaction between salience of others and affirmation as the independent variables. Replicating the results of Study 2a, salience of others had an effect such that those in the high salience of others condition preferred significantly less discretion ( $M = 4.58$ ,  $SE = .17$ ) compared to those in the low salience of others condition ( $M = 5.20$ ,  $SE = .17$ ) ( $F(1,78) = 6.24$ ,  $p < .05$ ,  $\eta^2 = .07$ ). Affirmation did not have an effect and most importantly the interaction term of affirmation and salience of others was not significant ( $F(1,78) = .10$ ,  $p = .74$ ). Given this last result, there was no point at looking at the simple effects. Therefore, my main prediction was not supported.

I also performed a repeated measures analysis with preference for discretion for each scenario as the within subjects factor and salience of others and affirmation as the between subjects factors. The results showed a main effect for scenario ( $F(2, 77) = 5.79$ ,  $p < .01$ ,  $\eta^2 = .13$ ) and consistent with the results of Study 2a pairwise comparisons suggested that preference for discretion in the salary scenario was significantly lower ( $M = 4.53$ ,  $SE = .17$ ) compared to preference for discretion in the health care scenario ( $M = 4.95$ ,  $SE = .16$ ) and to preference for discretion in the school admission scenario ( $M = 5.20$ ,  $SE = .18$ ). There was no difference in preference for discretion between the health care scenario and the school admission scenario. The three way interaction of salience of others, scenario and order was not significant ( $F(2,77) = .18$ ,  $p = .83$ ).

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<sup>8</sup> As with the previous studies, reliability score was low (Cronbach's Alpha = .54). I will therefore also report the analysis when taking into account the three separate scenarios.

## *Discussion*

In Study 2b I aimed at examining the motive of self protection that I hypothesized stands in the basis of the relationship between presence of others (that elicits comparison processes) and preference for relationship. I was hoping to show a mediation by process (Spencer et al., 2005) – by manipulating self affirmation, which was aimed to alleviate any threat to the ego that may come with discretion following exposure to the presence of others, I was hoping to show that the presence of others would not decrease people’s preference for discretion when they are affirmed, while it will still do so when they are not affirm. Unfortunately I did not manage to show this interaction empirically. It may be therefore that self protection is not the important motive to explore here and that other motives (such as status maintenance or affiliation needs) which were not explored here play the important role. Those will be examined in Studies 4-6. Importantly though, the results of Study 2b replicated the main effect of salience of others on preference for discretion.

The purpose of Studies 3a-3c (described below) was three-fold: First, in those studies I examine a behavioral indicator for preference for discretion. Those studies are lab studies in which participants actually chose the outcome allocation process (money given to them in the end of the experiment) to be either rule-based or discretionary in nature, and their choice affected their payment in the end of the experiment. Secondly, in those studies the situation was that participants could only benefit from a discretionary allocation system. Therefore, from a pure ‘economic’ rationale there was no reason not to choose discretion. Showing that people are more likely to prefer rules when others’ presence is salient to them (as opposed to not) is a more conservative and interesting examination of the phenomenon. Lastly, in those Studies I further gauged

the threat to the psychological motives that comes with discretion. In those studies I measured people's perceptions about their 'eligibility rule', tapping the status maintenance motive, and the combination of the results of Studies 3a and 3b helps again look at the motive of self protection. The combination of the results of Studies 3a and 3c suggests a forecasting error people make when predicting the threat associated with discretion (akin to the results of Study 2a with regard to order).

### ***Study 3a***

As noted above Study 3a was a laboratory study that examined a behavioral indicator for preference for discretion, and also manipulated the presence of others in a more vivid and realistic way.

#### *Method*

##### *Participants*

One hundred and twenty one participants from universities in London took part in this study in exchange for money. Participants were paid a show up fee (£10) as well as money based on their performance, to encourage them to take their decisions in the experiment seriously. Average age was 24.26 (SD = 7.2), 66.1% were female.

##### *Procedure*

Upon arrival to the lab, participants were seated in front of a computer. The instructions on the computer specified that participants were going to play a Trivia quiz game on the computer. Participants were told that they would have to solve 20 general knowledge questions and that they should do their best as for every question they solve correctly they would receive 20 pence. Participants were not given feedback for their

answers during the quiz. Upon completion of the quiz participants indicated how well they think they performed in the quiz.

Participants were then told that they were going to be paid based on the number of correct answers but also that the experimenter has an additional £ 10 to distribute as extra to participants at her discretion. Specifically participants were told: *“The experimenter will pay you 20p for each correct answer. However, the experimenter has additional £ 10 to give to participants at her discretion. The experimenter will use her discretion to give more than what a person is entitled to by the performance rule sometimes. The decision whether and how much to give as an extra will be based on a message you will send her on the computer stating why you think you may deserve some extra money”*. Participants were asked to write a short message to the experimenter that explains why they deserve extra money. They then allegedly sent this message to the experimenter via the computer (in reality the message was not sent instantly to the experimenter, but the image on the computer simulated a “sending message” message on the computer and participants waited until this message was allegedly sent).

After sending the message participants were told that while the experimenter is viewing the message, we would like to offer them the opportunity to change the payment system in the experiment such that they would be paid purely based on their objective performance (i.e. number of correct answers) without having the possibility to earn extra money based on the experimenter discretion. Participants were therefore asked to choose whether they would prefer to change the payment system to a rule-based one or whether they would like the payment system to stay as it is (with the possibility to earn extra based on the experimenter discretion). In the end of the

experiment participants were paid based on their performance and choice. Therefore all participants were paid 20 p for each correct answer they had. Those who chose to stay with the discretionary system were told that the experimenter decided to give them extra 50 p and they were given this extra money. Participants were then debriefed and thanked for their participation.

### *Independent variables*

#### *Manipulation of salience of others*

Presence of others was manipulated both physically and conceptually. Participants were randomly assigned to two conditions: In the low salience of others condition (n=63) participants did the quiz (and the rest of the experiment) while sitting alone in a room and the instructions did not mention any other people doing this task. In the high salience of others condition (n=58) participants did the quiz and the rest of the experiment along with other three people in the room. All instructions referred always to the other people as well (so when explained they would have to send a message to the experimenter it was made explicit that the other people in the room would also send this message).

In order to reinforce also conceptually the presence of others in the situation and the feature of discretion that allows for people with the same 'eligibility rule' to receive different outcomes, participants in this condition were presented with a table that allegedly showed the decision of the experimenter regarding the previous 12 participants in this experiment. The table showed that for people with the same number of correct answers the experimenter sometimes gave more and sometimes not and not always the same amount extra. It is important to note that this table is conceptually

equivalent to what people were told in both conditions regarding the discretionary decision of the experimenter, but by showing a table with outcomes of different people the presence of others in the situation becomes conceptually more salient. In this high salience of others condition, when asked about their choice of whether to change the payment system for the experiment, all participants were told that they were randomly assigned to decide about the payment system for all four people in the group. This was done in order to prevent any confound of one's decision depending on other people's decisions which are not known. Therefore, participants chose whether they would like all four people in the room to be paid based on performance only, or whether they would prefer all people to be paid based on the discretionary system described to them.

#### *Perceived 'rule-based' entitlement*

Participants did not receive feedback regarding their performance during the quiz. However participants should have a sense of how well they did in the task, and this is in fact their perception of their entitlement when allocation is based on rules. Measuring this would give an indication for the status maintenance motive. If participants who think they might benefit from the rules in terms of their relative standing are less likely to choose discretion (even when discretion can only benefit them) this will give an indication that discretion elicits the threat to one's relative standing in the group. Participants therefore marked on a scale of 1 to 7 (1=very poorly, 7=very well) how well they thought they did in the "Trivia Quiz".

#### *Dependent variable*

##### *Preference for discretion*

As explained before this was a behavioural indicator of preference for discretionary versus rule-based system and participants were asked to choose which system they prefer. Specifically they were asked: *“We would like now to offer you the opportunity to be paid for this experiment in a different way: You would be paid purely based on your objective performance (i.e. the number of correct answers you had) without having the possible extra payment based on the experimenter's discretion. Would you prefer to be paid purely based on your performance?”* Participants marked whether they would like to change to the rule-based system or to stay with the discretionary system that was described to them. Participants were paid in reality accordingly.

#### *Control*

#### *Fairness*

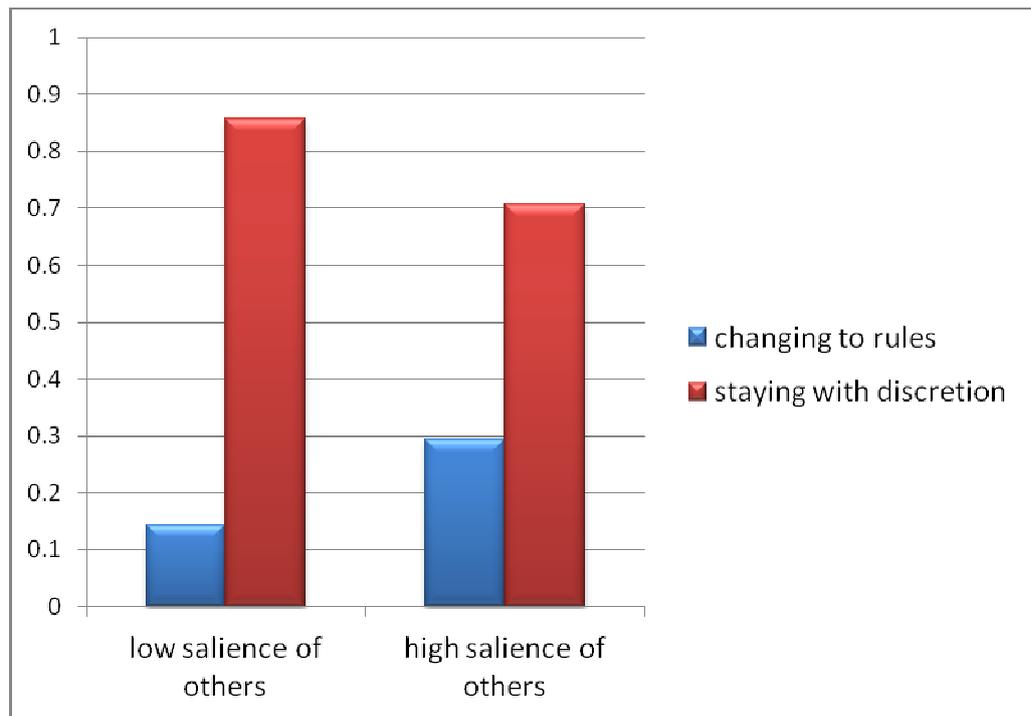
As with previous studies I also assessed people's perception about the fairness of the process. Therefore before being offered to choose to switch to a rule-based system, participants answered the question: *“How fair do you think the payment system in this experiment is?”* (1=not at all fair; 7=extremely fair).

#### *Results*

In order to test whether people for whom the presence of others was made salient were more likely to switch to a rule-based system, I first looked at the simple Chi-square value crossing salience of others and preference for a payment system. This analysis showed that while only 9 out of the 63 people in the low salience of others condition switched to a rule-based system, about double the people (17 out of the 58

people in the high salience of others condition) switched to a rule-based system ( $\chi^2 (1, N = 121) = 4.04, p < .05$ ) (see Figure 4.3).

*Figure 4.3: Percentage of participants changing to a rule-based system vs. staying with discretion as a function of salience of others (Study 3a)*



In order to predict choice of the system from both the salience of others condition as well as the perceived rule-based entitlement, I conducted a logistic regression predicting people's choice - either moving to a rule based system (coded as 0) or staying with the current discretionary system (coded as 1) – and using salience of others (low coded as 0 and high coded as 1) and perceived level of performance as predictors. Consistent with the previous analysis the results showed that the odds that people would choose to stay with the discretionary system were lower among those who were doing the experiment with other people in the room ( $B = -.90, p = .05, OR = .40$ ) (or alternatively the odds that people would choose to change to the rule-based

system were significantly higher among those who were doing the experiment along with other people in the room (OR=2.46). Perceived level of performance had a marginally significant effect such that the better people thought they performed the less were the odds that they would stay with the discretionary system ( $B=-.37$ ,  $p=.09$ , OR=.69). There was no interaction effect between salience of others and perceived level of performance on choice of the system.

Finally, I aimed to look at whether salience of others had an effect of people's perceptions of the fairness of the system. Those in the high salience of others perceived the discretionary system as significantly less fair ( $M = 4.22$ ,  $SD = 1.64$ ) compared to those in the low salience of others condition ( $M = 4.95$ ,  $SD = 1.82$ ) ( $F(1,119) = 5.28$ ,  $p < .05$ ). Given that salience of others had a direct effect on choice of the system and that it had an effect of fairness perception, I examined whether fairness perception mediated the relationship between salience of others and choice of the system. I used the traditional mediation procedure suggested by Baron and Kenny (1986): I first regressed fairness perception on salience of others and as already suggested, and satisfying the first step of the mediation procedure this relationship was significant ( $b=-.73$ ,  $p<.05$ ). Regressing choice of the system on salience of others condition showed a significant relationship ( $b=-.91$ ,  $p<.05$ ), satisfying the second step of this procedure. Regressing choice of the system on fairness perception also yielded a significant relationship ( $b=.29$ ,  $p<.05$ ), satisfying the third step of this procedure. Finally, when both salience of others and fairness perceptions were included in the logistic regression predicting choice of the system, fairness was significant ( $b=.26$ ,  $p<.05$ ) and salience of others was no longer significant ( $b=-.76$ ,  $p=.1$ ). This analysis suggests that fairness perceptions fully mediated the relationship between salience of others and choice of the system.

Finally it should be noted that including perceived performance in the regression predicting choice of the system from salience of others and fairness perception, showed the same effect, with perceived performance being marginally significant ( $b=-.41$ ,  $p=.07$ ).

### *Discussion*

Using a different methodology and a situational manipulation for salience of others, this study showed that when others' presence is made salient, people are less likely to stay with a discretionary system, and are more likely to choose a rule-based system. This result is very powerful as one must remember that the discretionary option could only give a person a positive (or at least a non-negative) added money, and therefore by reverting to the rule-based payment system, people for whom the presence of others was salient preferred to forgo possible monetary gain.

Interestingly, the relationship between salience of others and preference for discretion were mediated by fairness perceptions – in a discretionary system when this presence was more salient people were more likely to say that the system was not fair and were therefore more likely to choose to switch to a rule based system. What does this mediation mean? Is it that the presence of others in a discretionary system makes it more salient that discretion is less collectively fair? Or do people say that the system is less fair in this case as a way to rationalize their discomfort from the system? This question cannot be answered in this study, but will be addressed again in the studies that follow.

It must also be noted that this study gives some indication to the existence of the status maintenance motive, as it gives an indication that those who feel the rules benefit them (those who perceive themselves to be higher performers) do not like to risk their

relative standing in the group by choosing to add a discretionary component to their outcomes. Importantly, this effect of perceived level of performance still existed when controlling for fairness perceptions. In Study 3b I try to substantiate more the status maintenance motive and further look at the self protection motive in a more rigorous way.

### ***Study 3b***

Study 3b was similar to Study 3a with an important distinction: the extra money to be given to participants above and beyond the performance rule was decided randomly by the computer rather than at discretion of the experimenter. This change of design maintains the variation in the ‘extra payment’ that comes with the system that is not purely performance rule-based, but does not give rise to any self protection concerns (as the decision for the extra money is not based on any action of the participants as in Study 3a). If in Study 3b there is no effect for salience of others, while this effect exists in Study 3a, this will be an indication for the threat for the ego that comes with discretion. On the other hand, if the results are similar to those of Study 3a it will be more of an indication for the threat to one’s status that is in the basis of a discretionary system.

#### *Method*

##### *Participants*

One hundred and twenty two participants from universities in London took part in this study in exchange for money. Participants were paid a show up fee (£10) as well as money based on their performance. Average age was 25.70 (SD = 8.8), 62.3% were female.

### *Procedure*

The procedure was similar to the procedure used in Study 3a with the only change being that following the Trivia Quiz, after marking their perceived level of performance participants were then told that they are going to be paid based on the number of correct answers but that as we have extra £ 10 to give to participants they will enter into a lottery to see if and how much extra they can get. Specifically participants were told: *“You will be paid 20p for each correct answer. However, as we have extra £ 10 to give to participants, the computer will randomly allocate you a number between 0 and 10 and you will be paid this extra amount. So a person might be given more than when he/she is entitled by the performance rule sometimes. The decision whether and how much to give as extra will be based on the random number assigned to you by the computer”*. Therefore in this experiment participants did not have to send a message to the experimenter that would determine how much they get as extra, but their extra was allocated randomly by the computer. The rest of the experimenter and the measures were identical.

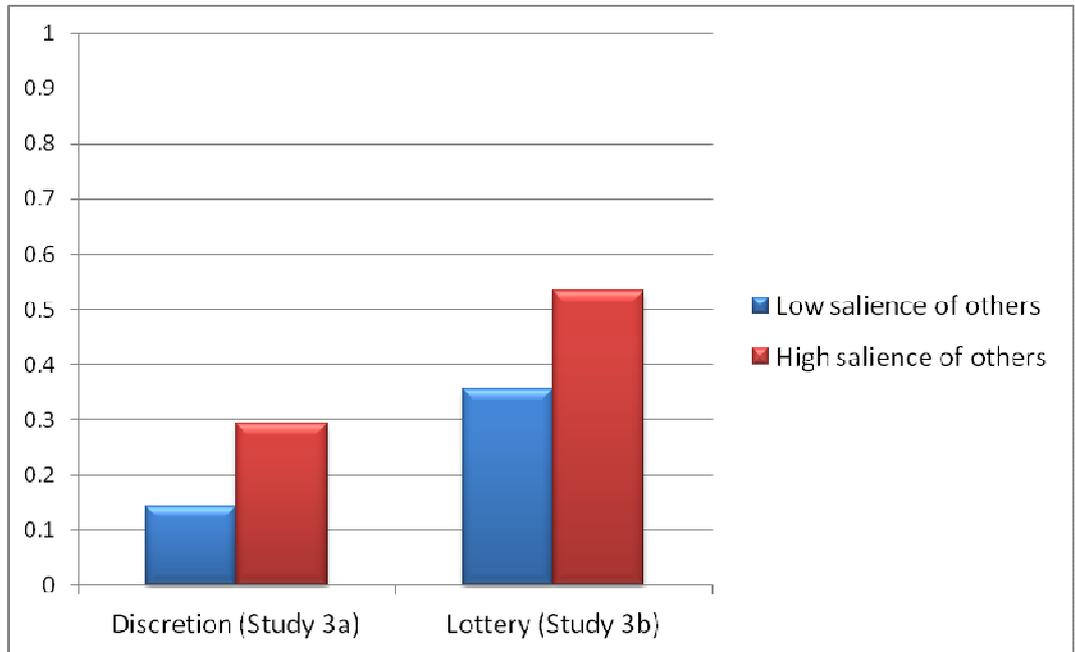
### *Results*

In order to test whether people for whom the presence of others was made salient were more likely to switch to a rule-based system, I first looked at the simple Chi-square value crossing salience of others and preference for a payment system. This analysis showed that while 22 out of the 62 people in the low salience of others condition switched to a rule-based system, 32 out of the 60 people in the high salience of others condition switched to a rule-based system ( $\chi^2 (1, N = 122) = 3.94, p < .05$ ). Therefore also when the “extra” over the performance rule is determined by lottery,

when presence of others is salient people are more likely to change to a rule-based system.

In order to predict choice of the system from both salience of others as well as the perceived rule-based entitlement, I conducted a logistic regression predicting people's choice - either moving to a rule based system (coded as 0) or staying with the current lottery system (coded as 1) – and using salience of others (low coded as 0 and high coded as 1) and perceived level of performance as predictors. Consistent with the previous analysis the results showed that the odds that people would choose to stay with the lottery system were lower among those who were doing the experiment with other people in the room ( $B=-.74$ ,  $p=.05$ ,  $OR=.47$ ) (or alternatively the odds that people would choose to change to the rule-based system were significantly higher among those who were doing the experiment along with other people in the room ( $OR=2.10$ )). Perceived level of performance had a significant effect such that the better people thought they performed the less were the odds that they would stay with the lottery system ( $B=-.36$ ,  $p<.05$ ,  $OR=.69$ ). There was no interaction effect between salience of others and perceived level of performance on choice of the system. The results of both Studies 3a and 3b combined appear in Figure 4.4.

Figure 4.4: Percentage of participants changing to a rule-based system as a function of salience of others in a discretionary system (Study 3a) and in a lottery system (Study 3b)



Finally, it should be noted that in this experiment salience of others did not have an effect on fairness perception ( $M_{\text{low salience of others}}=3.60$ ,  $SD = 1.87$ ,  $M_{\text{high salience of others}}=3.30$ ,  $SD = 1.49$ ,  $F(1,120)=.92$ ,  $p > .1$ , ns).

Interestingly, when I combine the results of Studies 3a and 3b (which have the same number of participants each, and across conditions, and for which data were collected using people from the same participants' pool) and look at fairness perceptions, I find that people perceived the lottery system (in Study 3b, when the computer randomly assigned the extra value) to be significantly less fair ( $M= 3.45$ ,  $SD = 1.70$ ) compared to how people perceived the discretionary system in Study 3a ( $M = 4.60$ ,  $SD = 1.77$ ) ( $F(1,241) = 26.74$ ,  $p < .01$ ). Those results may suggest that it is not the case that in general a discretionary system is perceived as less fair (in fact the results

suggest that people may think it is more fair when they have agency and control compared to where the outcome variation is random). It is only when the presence of others is made salient for them that people tend to report this system to be less fair (compared to where the presence of others is not salient), which may suggest that saying the system is not fair is a justification for the threat they feel from the presence of others in this system. Additionally, if it were the case that the presence of others makes it more likely that people will think about violation of general equity (as eliciting concerns for fairness), we would have witnessed an effect of salience of others on fairness in Study 3b, but this effect did not emerge.

### *Discussion*

In Study 3b the discretionary component of the outcome allocation in Study 3a was replaced by a random lottery of the computer. As stated above if the concern in a discretionary system is that not achieving good outcomes as others based on discretion reflects poorly on one self, and if this concern is what drives the negative relationship between salience of others and preference for discretion, salience of others should not have mattered when it was a random lottery of the computer (as the extra amount had nothing to do with the person for whom the outcome was allocated). The fact that presence of others still had a significant effect and that the results of Study 3b were similar to those of Study 3a does not support a self protection explanation. In addition, the fact that fairness concerns were not affected by salience of others in this study (despite the fact that this system can elicit equity concerns) may suggest that general fairness concerns are also not in the basis of the relationship between salience of others and preference for discretion. The fact that in both studies perceived level of performance, i.e. perception regarding the entitlement by the rules had a negative effect

on preference for violation of the performance rule lends further support to the threat to one's relative standing that may be what drives people away from discretion. Therefore Studies 4-6 will concentrate on that motive.

But before elaborating on those studies, I would like to report the results of an experiment that was similar to Study 3a above, i.e. examining a behavioral indicator for discretion, but one that made people bound initially to a rule-based system (rather than to a discretionary system as before), and then asked about a possibility to change to a discretionary system or stay with the rules. Consistent with the results of Study 2a I predicted that when people start and experience a rule based system and only forecast how a discretionary system might affect them, they do not experience the threat with discretion and therefore presence of others will not have an effect.

### ***Study 3c***

Study 3c was similar to Study 3a with an important distinction: Participants started with a rule-based system, so when finished with the Trivia Quiz they were not introduced to the discretionary system and did not have to write a message to the experimenter stating why they might deserve some extra money. Instead they were only offered the possibility to change to a discretionary system, in which they would have to write this message. Those who chose to switch to that system had to write the message to the experimenter. As noted above I predicted that when not forced into the discretionary system and only thinking about whether they would like to change to that system people will not experience the threat that comes with discretion and therefore there will be no effect of salience of others.

## *Method*

### *Participants*

One hundred and twenty nine participants from universities in London took part in this study in exchange for money. Participants were paid a show up fee (£10) as well as money based on their performance. Average age was 25.70 (SD = 9.2), 67.2% were female.

### *Procedure*

As noted above the procedure and the manipulation were similar to the ones used in Study 3a. The only change was that after participants finished the Trivia Quiz they were told they were going to be paid purely based on their performance. However they were offered to switch to a discretionary system. Specifically participants were asked: *“We would like now to offer you the opportunity to be paid for this experiment in a different way: we would like to offer you in addition to the payment based on your performance (i.e. the number of correct answers you had) to also have the possibility to receive extra payment (up to 10 pounds) based on the experimenter's discretion. You will need to send a message to the experimenter explaining why you think you may deserve any extra money and the experimenter will decide how much (if any) out of 10 pounds to give you as extra. Would you prefer to be paid based on your performance but also have the possibility to receive extra money based on the experimenter discretionary decision?”*. Participants indicated whether they want to change or stay with the rule-based system. If they chose to switch to a discretionary system they were asked to write the message to the computer and in the end all those who chose this system received additional 50p as extra payment.

## *Results*

In order to test whether people for whom the presence of others was made salient were less likely to switch to a discretionary system, I first looked at the simple Chi-square value crossing salience of others and preference for a payment system. This analysis showed that 45 out of the 65 people in the low salience of others condition switched to a discretionary system, and that 38 out of the 64 people in the high salience of others condition switched to a rule-based system ( $\chi^2 (1, N = 129) = 1.36, p = .24, ns$ ). In fact going with an 'economic' rationale, most people across both conditions switched to the discretionary system that can only yield additional monetary outcomes for them.

In order to predict choice of the system from both the salience of others variable as well as the perceived rule-based entitlement, I conducted a logistic regression predicting people's choice - either moving to a discretionary system (coded as 1) or staying with the current rule-based system (coded as 0) – and using salience of others (low coded as 0 and high coded as 1) and perceived level of performance as predictors. Consistent with the previous analysis, there was no effect of salience of others ( $B = -.30, p = .44, ns$ ) and there was no effect of perceived level of performance ( $B = -.001, p = .99, ns$ ). Lastly, as would be expected, salience of others did not have an effect in this study on fairness perceptions of the payment system.

## *Discussion*

The results of Study 3c especially when looked at in combination with the results of Study 3a suggest that it is only when people are forced into a discretionary system the threat that comes with the presence of others makes them less likely to choose a discretionary system. Consistent with the results of Study 2a, when people

were forced into a rule-based system and were asked whether they would like to change to a discretionary system, the presence of others did not make people less likely to choose this discretionary system. In addition, there was no effect of the perceived level of performance that taps people's perception about how they satisfy the 'entitlement rule' (effect that was consistent across Studies 3a and 3b). Those results may indicate that people misforecast how they are going to feel in a discretionary system, and more specifically using the language in my theorization, they misforecast the threat they are going to feel with the presence of others in a discretionary system. Gaining some extra money based on the experimenter discretion sounds good when it is hypothetical, but not when people actually experience this system.

The results across studies 1-3 so far were encouraging in terms of showing the effect of salience of others on people's preference for a discretionary system, suggesting that when the presence of others is salient people are less likely to prefer a discretionary system. Those results provide support for the first building block of my conceptual model – i.e. that it is the comparison processes that are associated with a discretionary system that make people less likely to prefer this system. Given that we all live in a social context, and constantly compare, even in an unconscious manner (Gilbert, Giesler, & Morris, 1995), in the next set of studies (Studies 4-6) I no longer examine the effect of salience of others, but keep exploring more the threat perspective, or what motives are threatened in a discretionary system. The results so far did not lend support to the motive of self protection. What seems to be more promising is the threat to one's relative standing that may be associated with a discretionary situation. In Studies 4 and 5 therefore I focus on status concerns as making people shy away from a discretionary system.

## ***Study 4***

The purpose of Study 4 was to explore directly the role status concerns play in determining people's preference for discretionary systems. My previous studies have indicated that when people perceive the rules to benefit them, they are less likely to choose discretion, possibly because the variation in outcomes coming with discretion represents a threat to their relative standing in a group. In Study 4 I wish to establish more directly the relationship between status maintenance concerns and preference for discretion by measuring people's tendency to worry about their status and how this relates to their preference for discretion.

### *Method*

#### *Participants and design*

Data were collected on-line from 40 participants, all students from universities in the UK, and participants received Amazon vouchers as compensation. Average age was 22.76 (SD = 3.34), 55% were female. Participants read two scenarios that depicted a discretionary allocation system within the university, with regards to grading and an admission process to a graduate program. As the sample was purely of students, I deliberately chose outcomes that are within the academia domain and therefore the scenarios should be engaging and relevant to this audience. The first scenario, the grading one, was as follows:

*“As part of your undergraduate studies you are taking a course that requires many class simulations and is very interactive in nature. The final assignment for the course (a test on the course materials) is graded by an external examiner who does not know the students. However, as this is a course which is highly interactive in nature*

*and the Professor who teaches the course knows the students very well, there will also be a component for the course grade that is decided at the discretion of the professor, based on his/her view on your performance in the course.”*

The other scenario appears in Appendix 4.2.

Participants read the scenarios and then were asked about their perceptions of the process, and to what extent they would like to change to a pure rule-based system. In the end participants completed a questionnaire assessing their general concerns about their status.

### *Measures*

#### *Independent variable*

In order to assess people's concerns about status, I used a 10-items scale developed by Blader and Chen (2011), which is an adaptation of the scale for reputation concerns developed by De Cremer and Tyler (2005). Examples for items are: *“I am rarely concerned how my status compares to others”* (reverse score), and *“I react very negatively when my status is challenged”*. Participants marked their answers on a scale of 1-5 (1=strongly disagree, 5=strongly agree) (Cronbach's alpha = .88).

#### *Dependent variables*

##### *Preference for discretion*

I aimed to choose this measure to be one that is close as much to a “behavioral” one, or an action tendency (though still hypothetical). Participants were asked how much money they would be willing to pay in order to change the system to one that is purely based on rules. Specifically for the grading scenario, participants were asked: *“If*

*there were an option to change the way this course is graded such that the grade will only be based on the score on the final assignment graded by the external examiner (i.e. without the discretionary component of the Professor's rating), how much money (between 0 and 100 pounds) would you be willing to pay in order to change the way the course is graded?"* I averaged the responses across both scenarios to get a measure of preference for discretion.

### *Results*

In order to examine my prediction that people who are more concerned about their status are less likely to prefer discretion, I ran a simple OLS regression predicting the amount people are willing to pay in order to change to a pure rule-based system from their status concerns score. The regression analysis showed that the more people were concerned about their status, the more they were willing to pay in order to switch to a pure rule-based system ( $b=.38$ ,  $p<.05$ ). I also created a binary measure of the willingness to pay in order to switch to a rule-based system (0=not willing to pay; 1=willing to pay) and ran a binary logistic regression predicting people's willingness to pay in order to change to a rule-based system from their status concerns score. The results showed that the higher people scored on the status concerns scale, the higher the odds were that they would pay money in order to switch to a rule-base system ( $B=1.14$ ,  $p<.05$ ,  $OR= 3.12$ ).

### *Discussion*

The results of Study 4 showed that people who are more concerned about maintaining their status are less likely to prefer discretion in outcome allocation, as they are more willing to pay money in order to switch to a pure rule-based system. The results of this study lend support to the threat to status maintenance that may be elicited

in discretionary allocation. The next study also deals with status and preference for discretion, but looks at how initial felt status affects people's preference for discretion.

### ***Study 5***

Study 5 further explored status and preference for discretion, but took a different perspective. The question I was asking was how people's felt status might affect their preference for discretion. I predicted that high status people would be less likely to prefer discretion when it comes to outcomes allocation processes.

There are two reasons for this prediction that are in line with my previous findings. The first is that high status people are more likely to perceive the rules to benefit them. The common basis for all definitions of status is the social influence high status people have, stemming from respect or admiration by others (e.g. Berger, Cohen, & Zelditch, 1972; Hughes, 1945; Keltner, Gruenfeld, & Anderson, 2003) and there also seems to be a high degree of consensus about individuals' positions in status hierarchies (Anderson, Srivastava, Beer, Spataro & Chatman, 2006; Magee & Galinsky, 2008). It is therefore likely that in many cases rule-based systems are designed to the advantage of the high status individuals. Higher benefits for high status people are already taken into account when systems, rules and procedures are designed as an indication that those higher status people deserve those better outcomes. This assumption is also in line with the self reinforcing force of status hierarchies, which is related to opportunity accumulation: people expect high-status people to do well and therefore help them create the conditions that enable success ("The Matthew Effect", Merton, 1968). Henrich and Gil-White (2001) beautifully describe the evolutionary self reinforcing nature of status elevation, arguing that high status people serve as models of society and other people defer, give more, and copy from high status people out of free

will and this is the process by which social learning occurs. If rules are crafted for the benefits of the high status people, those people are likely to be happier with those rule-based allocation systems and would not want to have discretion that might only jeopardize their outcome either in an absolute way (compared to what they would have received when the allocation is rule-based) or in a relative way (compared to what others would receive in a discretionary allocation). This prediction would be in line with the results of the lab experiments – when people perceived the rules to benefit them (i.e. the rule was the performance rule and they perceived themselves as high performers) they were more likely to switch to a pure rule-based system, even when on an absolute level they could only benefit from discretion. Discretion might have jeopardized their relative standing.

The second reason why higher status individuals are less likely to want discretion in outcome allocation systems relates to my theorization about the threat to one's status that comes with a discretionary system. If a discretionary system represents a threat to one's status, those who care more about their status are less likely to tolerate discretion (as shown in Study 4 above). There is evidence to suggest that status is more important to high status people that incorporate more their membership in a higher status groups to their core self (Tajfel & Turner, 1986), and that status maintenance concerns are more central among those with high status (Blader & Chen, 2011). Given the benefits that are associated with status (Berger et al. 1980, Humphrey 1985; Marmot 2005; Merton 1968), those who actually hold status are likely to be very sensitive in their social interaction to any cues of status loss (Barkow 1975; Blader & Chen, 2011; Harvey & Consalvi 1960; Hogan & Hogan 1991; Schlenker & Gutek 1987; Troyer & Younts 1997). Recent examination of the effect of status loss on

people's self regulatory ability (measured as persistence on tasks) showed that higher status individuals who experience status loss are more likely to be depleted and persist less in tasks given to them following status loss, compared to lower status people who experience status loss, as the threat with status loss is higher for the higher status individuals (Marr, 2012).

If status is more important to high status people and they are more likely to fear the loss of it, given that I showed status concerns to make people shy away from a discretionary system, high status people are less likely to prefer discretion. This prediction is examined in the current study.

### *Method*

#### *Participants and design*

Data were collected on-line from 40 participants, mostly students from universities in the UK, and participants received Amazon vouchers as compensation. Average age was 26.65 (SD = 8.95), 62.5% were female. Students were randomly assigned to one of two conditions: high status (n=19) and low status (n=21). Status was primed as will be elaborated below. Participants then read four scenarios and marked their preferences in each scenario.

#### *Independent Variable*

*Status* –Status was primed using a mind set manipulation: participants were asked to recall and describe in writing a situation in which they had either high or low status compared to another person. Status was defined as “the extent to which an individual or group is respected or admired by others based on their social position or ranking” (Magee & Galinsky, 2008). Participants were asked to describe what

happened in this specific case and how they felt. The same manipulation (but using power) was used in Galinsky, Gruenfeld, & Magee (2003, experiment 2), and these researchers suggest this experiential priming procedure allows to manipulate the construct in a way that is meaningful to participants.

To check the effectiveness of the status mind set manipulation, an independent coder coded the essays on how much status the participant reported having in that situation on a 7 point scale (1 = not at all, 7=to a large extent). Three participants did not complete the essays and were removed from analysis. Additional two participants wrote essays for which the coder failed to judge as related at all to possession of status in the situation and were also removed from the analysis. The analysis was therefore performed on the remaining 35 participants (16 in the high status condition and 19 in the low status condition). As expected, the status manipulation led participants to rate themselves as having different levels of status in their essays ( $t(33) = 13.47, p < .01$ ). Participants who were asked to write about a time they had a higher status relative to another person were coded as having higher status in their essays ( $M=5.81, SD=0.65$ ) than were participants who were asked to write about a time they had lower status ( $M=1.89, SD=.99$ ). To assess the reliability of these codes, a second independent coder rated the essays: the interjudge correlation was high,  $r = .93 (p < .01)$ .

#### *Dependent variable*

Preference for discretion – Participants read four different scenarios that were worded as short newspaper articles. Each scenario represented a different organizational context and presented the status quo, the way outcomes have been determined so far, which was based on discretion, and then suggesting a change in the

way outcomes are being determined such that they will be purely rule-based. For example, one scenario was an application for a U.S. Visa and was as follows:

*“According to recent press reports, the United States immigration office has decided to change its policy regarding the eligibility requirements to obtain a Visa to the U.S.. Until recently, anyone applying for a Visa had to be interviewed as a second phase by an immigration officer. One’s eligibility to enter the States has been ultimately determined at the discretion of this officer, based on one’s interaction with the officer (but after taking into account some objective criteria such as previous criminal record, age, marital status, occupation etc). In other words, the officer had complete control over who to give Visas to. However, a change in the system is going to be implemented soon such that the eligibility requirements for the Visa will be completely based only on objective criteria such as previous criminal record, age, marital status, occupation etc. The immigration officer will use an expert system on a computer that would take into account the different criteria and then automatically give a score which would be used to grant a Visa. If you achieve a score less than what is required you will not get the Visa and will also be given no opportunity to explain your particular situation. If you do achieve the score, the Visa will automatically be given to you”.*

The other scenarios depicted situations of determination of waiting time for surgery, first job salary determination and graduate school admission. The other three scenarios appear in Appendix 4.3.

### *Results*

I averaged the responses across scenarios in order to get a total score of preference for discretion. The total score for preference for discretion was lower for

people who thought of themselves as having high status ( $M = 3.68$ ,  $SD = .82$ ) compared to those who thought of themselves as having low status ( $M = 4.40$ ,  $SD = .98$ ) ( $F(1,33) = 5.34$ ,  $p < .05$ ,  $\eta^2 = .14$ ).

Since the reliability score for preference for discretion for the different scenarios was very low, I also performed a repeated measure analysis using scenario as the within subject factor and status as the between subject factor. This analysis showed an effect for scenario such that across conditions participants preferred significantly less discretion in the Visa and salary determination scenarios ( $M = 3.58$  and  $M = 3.55$ , respectively) compared to the health care and admission process scenarios ( $M = 4.53$  and  $M = 4.52$  respectively). There was no interaction of status and scenario. Status was marginally significant in the Visa scenario ( $M_{\text{low\_status}} = 4.10$ ,  $SE = .37$ ;  $M_{\text{high\_status}} = 3.06$ ,  $SE = .41$ ;  $F(1,33) = 3.51$ ,  $p = .07$ ,  $\eta^2 = .09$ ) and marginally significant in the salary determination scenario ( $M_{\text{low\_status}} = 4.10$ ,  $SE = .39$ ;  $M_{\text{high\_status}} = 3.00$ ,  $SE = .42$ ;  $F(1,33) = 3.65$ ,  $p = .06$ ,  $\eta^2 = .1$ ). Status was not significant in the other two scenarios though the pattern of the results was descriptively the same.

### *Discussion*

The results of Study 5 generally support (at least with regard to two out of the four scenarios) the prediction that higher status individuals are less likely to prefer discretion in the allocation of outcomes. Given that recent research shows that higher status individuals are likely to be more concerned about their relative standing in a group (e.g. Blader & Chen, 2011; Marr, 2012), the results of this study provide further indication that status maintenance concerns may be what makes people shy away from a discretionary system, i.e. that a discretionary allocation system can represent a threat to one's status in a group.

Studies 4 and 5 documented the role status maintenance concerns play in people's preference for discretionary allocation system. Study 3a gave an indication to the threat of one's standing in a group that comes with discretion specifically for those who perceive themselves to be of high eligibility by the rules. In Study 6, I chose to focus on the second feature of discretion that regards the agentic role a person plays in determining his or her outcomes in a discretionary allocation system, and what threats to psychological motives this feature of discretion carry with it.

### ***Study 6***

In Study 6 I chose to focus on the feature of discretion that is about the interaction between the person allocating the outcome and the recipient of the outcome (i.e. what I called before the agentic role in discretion). I also chose to manipulate in the same study different concerns for the two motives: affiliation needs and status concerns and look at them in combination.

The experiments so far have either been in the lab where people interact with others on a short term basis or included scenarios that depicted mostly situations in which outcome allocation was determined, but without the richness of the social context or long term interaction in a group. In Study 6 I therefore used scenarios that made people think about situations in which they were immersed in a group and had on-going relationship with the decision maker. Those situations are more likely to give rise to concerns such as affiliation needs and also exacerbate the status maintenance concerns.

In this study I manipulated the two basic needs of status maintenance and the need to belong inherently within the scenarios. The scenarios depicted a situation in

which an outcome allocation decision is taking place. (e.g. choosing a group member for a prestigious role in the group) and in which the decision is based on objective pre-determined criteria, but in case several people satisfy those criteria, an authority figure makes a discretionary decision based on an interaction with those people. Participants were asked to imagine that they were one of the people that satisfied the objective criteria and were therefore going to be interviewed or observed by the person making the decision. I manipulated status maintenance concerns by telling some participants that other group members will know or not about their potential 'failure' in the discretionary stage. I manipulated affiliation needs by telling some participants that the person making the discretionary decision has close social relationship with them and with the other group members (high affiliations need concerns) or that he has purely professional relationship with them and with the other group members (low affiliation needs concerns). Therefore the design was a 2 (status concerns: high/low) X 2 (affiliation concerns: high/low) design, and my predictions were that *(a) when status concerns are high (compared to low) people will be less satisfied with a discretionary system (b) when affiliation concerns are high (compared to low) people will be less satisfied with a discretionary system*. If either or both those predictions are confirmed, they will lend support to my theorization that the threat that people experience when are bound to a discretionary outcome allocation process stems from threat to the basic motivation to maintain status in the group and/or to affiliate with others. I did not have any a-priori prediction regarding an interaction between status concerns and affiliation concerns.

## *Method*

### *Participants and design*

Data were collected on-line from 67 undergraduate students from universities in the UK. Average age was 26.18 (SD = 8.45), 67.2% were female. Participants were randomly assigned to one of two conditions: high status concerns (n=34) and low status concerns (n=33). In addition participants were randomly assigned to one of two conditions: high affiliation needs (n=34; n=17 in the low status concerns condition and n=17 in the high status concerns condition) and low affiliation needs (n=33, n=16 in the low status concerns condition, and n=17 in the high status concerns condition). Participants then read three scenarios that depicted outcome allocation processes in a discretionary fashion and were asked about their perceptions of the process.

### *Independent Variables*

As stated above *status concerns* and *affiliation concerns* were manipulated inherently in the scenarios by manipulating whether other group members know or not about the role one played in determining the discretionary outcome (for the status concerns) and by manipulating whether the person making the discretionary decision is socially related to the participant (and other group members) or not. An example for one of the scenarios and the manipulation is:

*“You are a member of a work team. Charlie is the team leader, which means he leads team discussions and has final power over team decisions. **Charlie is a team leader who is quite socially involved in the team and all team members have very good personal relationships with him [Charlie is a team leader who is not very socially involved in the team, and all team members have only professional***

*relationships with him]. Lately there has been a need to assign one member of the team to be the team coordinator with other teams in the department. This is a prestigious role that allows for many benefits including higher status in the team and higher salary. The decision of whom to assign the role is based on objective criteria (such as experience with doing similar jobs, academic major, and ratings on performance evaluation feedback given by supervisors, colleagues and subordinates). In case a few people meet the same objective criteria, Charlie (the team leader) will have the discretion to decide who will be assigned this role, based on interviews conducted with those people.*

*You have been informed that you seem to satisfy the objective criteria but that there are other people who also seem to satisfy the criteria, and therefore all of you will be interviewed by Charlie who will then make the final decision. **Other team members will not know how many people or who was shortlisted for interviews (which means that if you do not do well in the interview they will not know about it), but will only learn about the final choice of the person for this role [Other team members will know how many people and who was shortlisted and interviewed (which means that if you do not do well in the interview they will know about it), and then will learn about the final choice of the person for this role].***

The other two scenarios appear in Appendix 4.4.

#### *Dependent Variable*

Participants rated on a scale of 1 to 7 how satisfied they were with the decision process (1=not at all satisfied; 7=very much satisfied). Reliability score for the three

scenarios was satisfactory (Cronbach's alpha = .84) and I therefore averaged the score across scenarios to get a measure of satisfaction from the discretionary system.

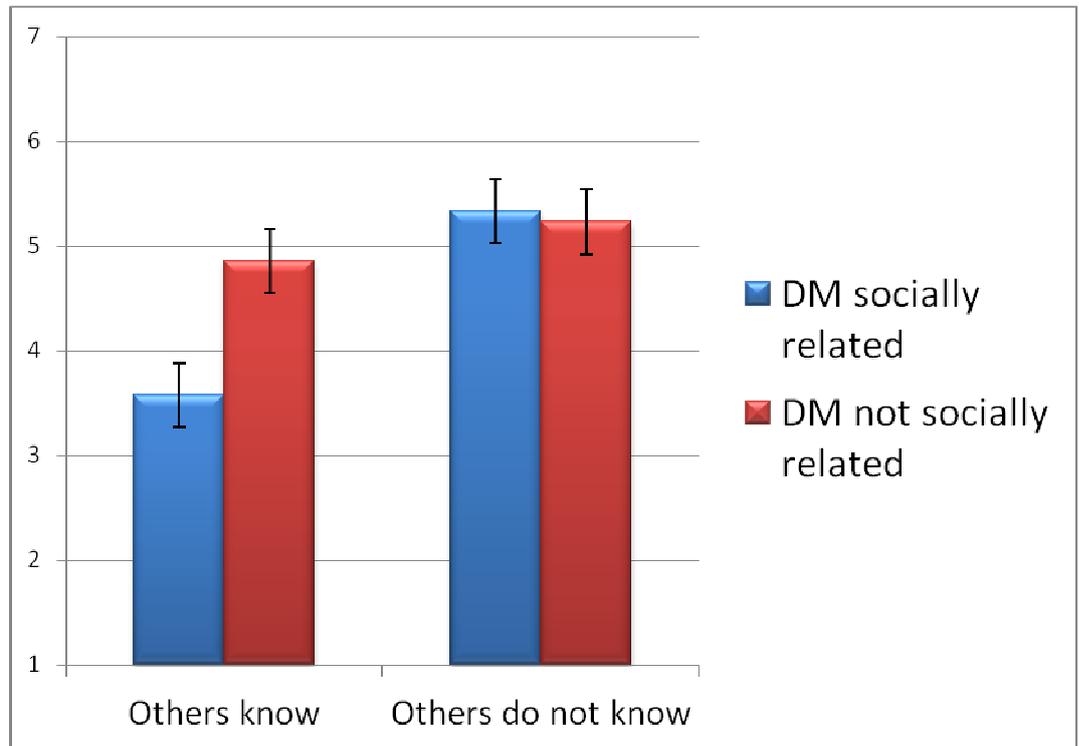
In addition I measured participants perceptions of the fairness of the process by asking them how fair the process was (1=not at all fair; 7=very much fair). I averaged the responses across scenarios to get an overall measure of fairness perceptions (Cronbach's alpha = .77).

### *Results*

To test my predictions that (1) participants for whom status concerns are high will be less satisfied in a discretionary system than participants for whom status concerns are low and (2) participants for whom affiliation needs are high will be less satisfied in a discretionary system than participants for whom affiliation needs are low, I performed a Univariate Analysis of Variance predicting satisfaction scores, and using status concerns (low/high – meaning whether others know or not) and affiliation concerns (low/high – meaning whether decision maker is socially related or not) and the interaction between both as predictors. The results showed a main effect for status concerns, such that those who read that others will know about their possible 'failure' in a discretionary system were significantly less satisfied ( $M = 4.21$ ,  $SE = .21$ ) compared to those who read that others will not know ( $M = 5.28$ ,  $SE = .22$ ) ( $F(1,63) = 12.12$ ,  $p < .01$ ,  $\eta^2 = .16$ ). There was also a main effect for affiliation concerns such that those who read that the decision maker is socially related to them were less satisfied with discretion ( $M = 4.45$ ,  $SE = .21$ ) compared to those who read that the decision maker is not socially related to them ( $M = 5.04$ ,  $SE = .22$ ) ( $F(1,63) = 3.78$ ,  $p = .05$ ,  $\eta^2 = .05$ ). Interestingly there was a significant interaction between status concerns and affiliation concerns ( $F(1,63) = 5.22$ ,  $p < .05$ ,  $\eta^2 = .07$ ), and the simple effects analysis

showed that within the “others do not know” condition, there was no difference in satisfaction levels between the “decision maker is socially related” condition ( $M = 5.33$ ,  $SE = .30$ ) and the “decision maker is not socially related” condition ( $M = 5.23$ ,  $SE = .31$ ) ( $F(1,63) = .06$ ,  $p > .1$ , ns). Within the “others know” condition there was a significant difference between levels of satisfaction depending on whether the decision maker is socially related or not, such that satisfaction was significantly lower ( $M = 3.60$ ,  $SE = .30$ ) when the decision maker was socially related to the person compared to when he was not related to the decision maker ( $M = 4.86$ ,  $SE = .30$ ) ( $F(1,63) = 9.08$ ,  $p < .01$ ,  $\eta^2 = .12$ ). Within the “decision maker is not socially related” condition, there was no significant difference in satisfaction level between the “others know” condition ( $M = 4.86$ ,  $SE = .30$ ) and the “others don’t know” condition ( $M = 5.23$ ,  $SE = .31$ ) ( $F(1,63) = .70$ ,  $p > .1$ , ns). Within the “decision maker is socially related” condition, there was a significant difference in satisfaction level between the “others know” know and “others don’t know” conditions, such that those in the “others know” condition were significantly less satisfied ( $M = 3.60$ ,  $SE = .30$ ) compared to those in the “others don’t know” condition ( $M = 5.33$ ,  $SE = .30$ ) ( $F(1,63) = 16.88$ ,  $p < .01$ ,  $\eta^2 = .21$ ). The interaction pattern is shown in figures 4.5.

*Figures 4.5: Preference for discretion as a function of status maintenance concerns (whether others know about the discretionary interaction or not) and concerns for affiliation needs (whether the decision maker (DM) is socially related or not) [error bars represent  $\pm SE$  (standard errors)] (Study 6)*



To test whether the manipulation of status concerns and/or affiliation concerns affected people's perception of the fairness of the discretionary system, I performed a Univariate Analysis of Variance predicting fairness scores, and using status concerns (low/high) and affiliation concerns (low/high) and the interaction between both as predictors. The results showed a main effect for status concerns, such that when people thought others would know about their possible 'failure' in a discretionary system they perceived the process to be significantly less fair ( $M = 4.42$ ,  $SE = .23$ ) compared to those who thought others will not know about this possible 'failure' ( $M = 5.25$ ,  $SE = .23$ ) ( $F(1,63) = 6.29$ ,  $p < .05$ ,  $\eta^2 = .09$ ). There was no effect for affiliation concerns on

fairness perceptions and there was no interaction effect between status concerns and affiliation concerns.

### *Discussion*

In Study 6 I aimed to explore how concerns for one's status in a group and concerns for one's affiliation needs, may be at the core of why people might be unhappy with a discretionary outcome allocation process. Specifically in this study I focused on the agentic role of the person for whom the outcomes are allocated in determining the discretionary outcomes. I therefore manipulated whether other people in one's group know that following a discretionary process the person may not succeed at securing the desired outcome, and therefore this possible 'failure' in a discretionary system can harm one's status in the group. Showing that people are less happy in a discretionary system when others know about their possible failure, lends support to the threat to one's status that comes with discretion. In addition I manipulated whether the person who is making the discretionary decision is socially related to or not to the person at the receiving end of the outcome. In a discretionary system, when a person may not succeed at securing the desired outcome, this person can attribute this 'failure' to the fact that the person making the decision does not like him/her enough and this would be more of a threat to one's affiliation needs if the decision maker is socially related to them. Showing that people are less happy with a discretionary system when the decision maker is socially related to them lends support to the threat to one's affiliation needs that comes with discretion.

Supporting the status concerns prediction, when other people know about one's possible 'failure' in a discretionary outcome allocation process, people are significantly less satisfied with this system. With regard to affiliation needs, the results showed that

people are significantly less satisfied with a discretionary system when the person making the outcome allocation is socially related to them (as opposed to not). I find this effect particularly interesting as one could also expect that being socially related to the decision maker enhances one's belief about the ability to secure better outcomes based on discretion, as people might expect to use the good interpersonal relationship to influence the decision maker to give them better outcomes. However, it seems as if the threat of not being able to secure better outcomes from someone who is socially related to them is more salient and fundamental and therefore 'overrides' any such optimistic expectations.

It must be noted, that there might have been an indication for this effect in the field study. Though not hypothesized in two out of the three outcomes studied in the field study 'location' had an effect such that those in the regional offices preferred discretion significantly less compared to those in the large city office. When I presented the data to the organization and mentioned this effect, a discussion emerged around how the vertical relationship are more intimate in the regional offices and how someone who gives a performance evaluation to an employee can also be the employee's son's godfather. Though speculative in manner it might be that the effect of location is related to a threat on one's affiliation need: regional offices are likely to be more cohesive with more intimate relationship between people across hierarchy and therefore affiliation needs are exacerbated and there is a heightened threat to them in a discretionary allocation system.

Interestingly, the effect of affiliation concerns was qualified by a significant interaction of affiliation concerns and status concerns on satisfaction from the discretionary system, showing that only when others know about one's possible

‘failure’ in a discretionary outcome allocation system, the effect of social affiliation is significant, and that people are the least satisfied when the decision maker is socially related to them and others know about their possible ‘failure’ in a discretionary system. One interpretation of this result is that the fear of losing status is exacerbated when the decision maker is someone who is socially related to the person trying to secure the outcome, as when this is the case others would have higher expectations about one’s ability to secure good outcomes in a discretionary system and a possible failure to do so would be attributed by others to one’s competence, a situation that represents higher levels of threat to one’s status in the group.

Another way to interpret this interaction is that affiliation needs following the manipulation of whether the decision maker is socially related to the person whose outcomes are determined or not, is what made people more sensitive to their relative standing in the group, therefore also eliciting status concerns. Indeed, Pickett, Gardner, and Knowles (2004) showed that people who are high on the need to belong are more likely to adequately monitor their social environment (e.g. they are better able to identify vocal tone and facial emotions), and part of this heightened sensitivity to social environment will be sensitively to one’s social standing in a group (Blader & Chen, 2011). Blader and Chen (2011) show that higher status people (for whom research shows that status maintenance concerns are more salient), who are also high on the need to belong, are particularly sensitive to status verification information. In my theorization, a discretionary outcome allocation system may be a situation in which status verification information is sought after, or more accurately there is a threat to one’s status, and this threat would be particularly experienced when both status concerns and affiliation needs are high.

## CHAPTER 5: GENERAL DISCUSSION

### *Summary of results*

My empirical examination of people's reactions to a discretionary allocation system, and the psychological threats that are associated with this system for the person at the receiving end of the outcomes was divided to two main parts. In the first part (Studies 1-3) I looked at the relationship between comparison processes and preference for discretion, with the aim of showing that the comparative component in a discretionary situation is what drives people away from a discretionary allocation system. Study 1 was a field study in which I looked at employees' preference for discretion in performance evaluation, bonus allocation and portfolio assignment, and in order to tap comparison processes I measured employees' chronic tendency to compare to others. The main finding from this study was that the more employees compare to others, the less they are likely to prefer discretion when it comes to those important outcomes allocated to them. Studies 2a and 2b were scenarios studies in which I *manipulated* comparison processes by making others more or less salient in the situation. In Study 2a I show that when the presence of others is more salient, people who experience initially (through the scenarios) a discretionary system, are less likely to prefer that system and are more likely to prefer a rules-based system. I also show that when people experience initially a rule-based system the salience of others does not have an effect, and based on my theorization the explanation is that in this case people do not experience the threat that comes with a discretionary system and in fact (mis)forecast it. Study 2b replicated the results of Study 2a and also examined the motive of self protection or threat to the ego that may come with discretion. This study failed to find support for this motive. Studies 3a-3c were all lab experiments in which I

*manipulated* the comparison process, or the presence of others in a vivid and realistic way, and in which importantly I examined a behavioral indication for preference for discretion, by letting people choose a system and having their choice affect their monetary outcome in the experiments. Also, in those studies I created a situation in which people *can only benefit* from discretion by getting extra money (beyond what they would get by the performance rule). In Study 3a I show that when the presence of others is made salient people are more likely to switch to a rule-based system (even when they can only benefit from discretion). Additionally I show that people who perceive the rules to benefit them (i.e. the rule is a performance rule and they perceive themselves as high performers) are also more likely to switch to a rule-based system, a result that lends some support to the threat to one's relative standing in a group that comes with discretion. Study 3b was similar to Study 3a but in this study instead of discretionary extra money decided by the experimenter, the extra amount was decided randomly by the computer, therefore the agentic role of the person at the receiving end of the outcome was eliminated. The results of this study were similar to the results of Study 3a, and in combination those two studies rule out the threat to the ego that comes with discretion and give more support to the threat to one's status that comes with discretion. Finally, Study 3c was similar to Study 3a, but participants experienced a rule-based system and were then asked about their choice to switch to a discretionary system, i.e. they did not experience the threat with discretion. Consistent with the results of Study 2a, in this study the presence of others did not have an effect of choosing discretion vs. rules, further supporting the notion that people tend to misforecast the threat that is associated with discretion. To sum, the first part of my empirical examination showed that the social context, and specifically the comparison to others that comes with a discretionary allocation system is what drives people away

from discretion, it did not support the motive of self protection or threat to the ego that comes with discretion, and it gave some initial indication to the role of status maintenance concerns that may be associated with a discretionary allocation system.

In the second part of my empirical examination (Studies 4-6, all scenarios studies), I therefore chose to focus on the other motives that I suggested might be thwarted in a discretionary allocation system, i.e. status maintenance concerns and affiliation needs. Studies 4 and 5 focused on status while in Study 6 I looked at both status and affiliation needs. In Study 4 I measured people's chronic concerns about their status in a group and showed that the more people are concerned with their status the less they are likely to prefer discretion in outcomes allocated to them. Study 5 took this theorization a step forward and by manipulating people's sense of status showed that high status people, for whom theoretically (a) status is more likely to be important (b) are more likely to perceive the rules as benefitting them, are less likely to prefer discretion in outcome allocation. Therefore both Studies 4 and 5 lend support to the heightened status maintenance concerns that may be associated with a discretionary system. Lastly, in Study 6 I chose to focus on the agentic role of the person at the receiving end of the outcomes and examined both status maintenance concerns and concerns for affiliation needs that may come with discretion, following the role the person at the receiving end of the outcomes has on determining his/her discretionary outcome. I used scenarios in which participants were thinking about themselves acting in a long term relationship with their groups members and I manipulated status concerns (by manipulating whether other group members would know about one's possible failure to secure a good outcome in a discretionary system) and affiliation needs (by manipulating whether the person at the receiving end of the outcomes was

socially related or not to the person making the discretionary decision). I find both concerns to have an effect, such that when people are more concerned about their status they are less likely to be satisfied with a discretionary system and that when people are more concerned with affiliation needs they are less likely to be satisfied with a discretionary system. Interestingly I also find an interaction effect such that status concerns are exacerbated by concerns for affiliation needs.

### ***Theoretical contributions***

My research has important theoretical contributions to three distinct literatures: literature on discretion, literature on job design, and literature on status.

**Literature on discretion vs. rules in outcome allocation** – As noted in the introduction section, discretion has been widely researched in the legal literature and within the organizational literature has been widely researched from a very macro-level perspective looking at bureaucratization and the amount of rules vs. discretion used in organization (e.g. Merton, 1940; Thompson, 1961) and as a tool of management to control employees (e.g. Leifer & Mills, 1996). A more micro-level perspective looked at discretion from the perspective of the employees who use (or not) discretion and to what extent they would prefer discretion, in the sense of more autonomy and empowerment (e.g. Barzelay, 1992; Hackman & Oldham, 1975; Osborne and Gaebler, 1992) and recently there has been work on whether people would want to use markets or hierarchies when allocating outcomes to others (Sondak & Tyler, 2011). My work takes a different perspective – I take a micro-level perspective of examining why those who are at the receiving end of the discretionary outcome allocation might not want discretion and what the psychological threats that may be associated with a situation in which another person has discretion over a focal person's important outcomes are.

Though in the marketing literature there has been some work looking at why customers may not want employees to use discretion (e.g. Becker & Olsen, 1995), this literature has not been expanded to examine interactions within the organizations and has not rigorously examined the psychological processes that take place and make people shy away from a discretionary allocation system. To my knowledge my work is the first theoretical and empirical examination of this question.

**Literature on job design** – Previous literature on job design has focused on the positive consequences of granting employees with more autonomy or decision latitude (e.g. Barzelay, 1992; Finkelstein & Hambrick, 1990; Hackman & Oldham, 1975; Gronroos, 1990; Osborne & Gaebler, 1992). What this research did not examine, is whether employees who are affected by those decision made by employees who hold the decision latitude are happy with those processes, and why. Therefore, my work contributes to literature on job design by incorporating also the perspective of those affected by others having higher levels of autonomy.

**Literature on status** – Finally, this research contributes to the literature on status and status maintenance (e.g. Barkow 1975; Blader & Chen, 2011; Harvey & Consalvi 1960; Hogan & Hogan 1991; Schlenker & Gutek 1987; Troyer & Younts 1997) by showing the fundamental role status maintenance concerns play in determining people's preferences and behaviors. Specifically, the results of this empirical examination were in line with status maintenance concerns and depicted a rich picture of the relationship between status and preference for discretion. Though one could have expected that high status individuals would have more efficacy beliefs regarding the way they could benefit from discretion, the results of this research are consistent with an emergence research on the fragility of high status people, their

possible increased fear of losing their status (Marr, 2012) that may be associated with a discretionary allocation system.

### ***Practical contributions***

This work has several important practical implications. First, this work suggests that organizations might benefit from examining outcome allocation decision processes that pertain to both employees and customers and ask the question to what extent can those employees or customers ‘tolerate’ the discretionary allocation process. Surely, from the point of view of the organization or top management, there will be no desire to use merely rules in determining for example performance evaluation ratings, as creating such a system and defining the reward to the last detail may have unintended effect such as discouraging employees from engaging in any extra-roles behaviors that might benefit the organization (Van Dyne & LePine, 1998). However, it is important that top management and policy designers are made aware of how people react to those discretionary outcome allocation systems so they might consider what the right, possibly more balanced amount of discretion vs. rules in different outcome allocations is.

Secondly, given that organization might still want to use discretion in their outcome allocation processes, and given the pivotal role that comparison processes play in determining people’s satisfaction with a discretionary system, organizations might benefit from thinking how to possibility minimize comparison process in discretionary allocation systems, or at least consider what should the salient comparison group for employees be. For example, it might be that instead of focusing on the forced distribution in a discretionary performance evaluation, there should be more emphasis on temporal comparison (e.g. to how the employee performed in the past compared to

the present, or what the performance expectations going forward are). Also, given the threat to one's relative standing in a group that comes with a discretionary system, organizations should consider whether for example a more suitable comparison in a performance evaluation feedback session would be to someone at the same level as the employee being evaluated but in a different group/department/location of the company, possibly a comparison that would be less threatening and that might create a less defensive response from the side of the employees being evaluated in a discretionary fashion.

Lastly, given the prominent role that status maintenance concerns play in determining people's satisfaction with a discretionary allocation systems, and in line with the results of Study 6, organizations could benefit from thinking about how visible the discretionary outcomes are to other employees and more specifically how visible and salient the discretionary process is. The more visible the process, the more employees are likely to think that others might 'witness' their failure to secure good outcomes in a discretionary allocation systems, thereby enhancing status concerns and making employees more likely to shy away from a discretionary system.

### ***Future directions***

This work has the potential of going into many other fruitful directions. One direction which I plan to examine in the future is whether it matters if the outcome allocated represents a gain or a loss. The current work looked only at rewards or gains, but since people tend to think and weigh outcomes differently in gain versus loss domains (Kahneman & Tversky, 1979) it is important to look at this phenomenon in the loss domain. Nosanchuk and Erickson (1983) for example show that people engage more in upward social comparison for events with negative outcomes, and therefore the

relationship between salience of others and preference for discretion may be strengthened when one deals with potential negative outcomes, as people might even experience higher threat that they might not be as good as others with securing good outcomes (or securing the least worst outcomes) in a discretionary allocation system. Recently, Sondak and Tyler (2011) looked at the difference between allocating burdens vs. benefits, yet from the point of view of the allocator. Their studies show that when it comes to benefits people prefer to allocate outcomes through hierarchies (which will be akin in a way to using discretion). However, when it comes to burdens, people prefer to allocate them through markets (which will be more similar to rule-based system, so the outcomes depend on what people put into the market, i.e. equity-based). Sondak and Tyler (2011) argue and show that when it comes to burdens allocators perceive the markets to be procedurally more fair in the sense of better serving the group cohesion. It will be interesting to look at this question from the perspective of the people at the receiving end of the outcomes and from the same threat perspective I have used in this work.

Another avenue for future discretion would be to look at interpersonal, or dyadic (decision maker-recipient) factors that might affect people's preference for discretion. Looking at the threat to affiliation needs used this framework but there are additional factors to be considered that mainly affect the extent to which the person at the receiving end of the outcomes believes he/she could use discretion to their advantage, something that might mitigate the threats I have discussed in this work. For example, it could be that if the person at the receiving end of the outcome perceives the allocator to be similar to him/her (by ethnic background for example), s/he is more likely to believe that based on this similarity the other person is likely to allocate them

better outcomes, as we know that people like others who are similar to them (Byrne, 1971). Related to this point, it might be worthwhile to investigate in the future additional individual differences (such as differences in approach/inhibition orientation, extroversion/introversion) that might have an effect on people's efficacy beliefs in a discretionary outcomes allocation system.

Lastly, though the current research took the perspective of the people at the receiving end of the outcomes, an important avenue for future research would be to take the perspective of the allocator, and examine preference or use of discretion vs. rules, using the same threat perspective I have used in this paper. While having discretion over outcome allocation gives power to the decision maker, it also creates the need for accountability – those people allocating the outcome in a discretionary fashion might have to explain their decisions. Allocators are therefore likely to think about and be bothered by the way the people for whom they allocate the outcomes perceive them. Taking the same perspective used in this paper, this might represent a threat to their affiliation needs. If resources are very scarce and there is a high probability of the decision maker having to allocate negative outcomes to many people in a discretionary fashion, this might also represent a threat to the allocator's status in the group, as he/she might fear that others' perceptions about the way they make the discretionary decision might undermine their respect to them. Therefore, 'playing' with situational variables that vary the threat to the motives and needs of the *allocator* is an important direction for future research.

### ***Conclusion***

The motivation for this work started with a personal experience during the years I have spent in the UK, in which I perceived the general system (mainly as a customer)

to be very much rule-based and very different from the more discretionary-based system I got used to in my origin country. The contrast in experience is what prompted me initially to look at the question of preference for discretion vs. rules, and gladly as I was going through the process, conducted the interviews in the field, and even by watching myself going recently through a job admission process, I became more and more convinced that people are very sensitive to the way their outcomes are determined. In this work I took a threat perspective and aimed to examine the psychological threats that are associated with discretionary processes. I hope that the current theoretical and empirical investigation is only the beginning of examining this important organizational phenomenon.

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## **APPENDIX 4.1: Stimuli for scenarios studies 2a and 2b**

Apart from the health care scenario that appears in the main text, there were two other scenarios presented below.

### Salary determination scenario

*Imagine that YOU AND A NUMBER OF GRADUATE STUDENTS are recruited for a job in a London-based company and are waiting for your entry salary to be determined. Currently, your and other new recruits' entry level salary is determined at the discretion of the future employer following an interview process (but after taking into consideration objective criteria such as academic major, previous work experience etc.). Therefore, companies may pay graduate students who are similar on the objective criteria different entry salaries.*

*A recent article in the Financial Times suggests that companies are going to change their policy such that they will pay a standard salary to graduating students with variation on account of work- experience and academic major. Therefore, your and other new-recruits' entry salary will be determined based only on those objective criteria.*

### Graduate admission scenario:

*Imagine that YOU AND A NUMBER OF OTHER CANDIDATES are applying for a graduate programme in one of the universities in the UK. Currently, when applying, you and other candidates are requested to be interviewed by one of the professors at the university (from the relevant department) and the decision whether to admit you and the others is at the discretion of this professor based on the interview (but after taking into account the prior education, standardized test scores, age, and*

*prior work experience). Therefore candidates who are similar on those objective criteria may have different chances of being admitted.*

*The council of higher education has recently published a report recommending a change in this system such that there will be an automatic system determining eligibility for being admitted to a higher level education programme by assigning pre-determined weights to your and other candidates' years of prior education, standardized test scores, age, and prior work experience. Then a computer algorithm will determine whether you and other candidates are admitted or not based on this score. Therefore, admission will be determined based only on those objective criteria.*

## **APPENDIX 4.2: Stimuli for scenarios Study 4**

The second scenario used in this study is presented below.

*You are applying for a graduate programme in one of the universities in the UK. The admission decision is based on criteria such as your prior education, your standardized test scores, and your prior work experience. In addition you will be interviewed by one of the professors at the university (from the relevant department) who will rate your academic potential at his/her discretion following this interview and this score will be taken into account in the admission decision.*

### **APPENDIX 4.3: Stimuli for scenarios Study 5**

Apart from the US visa scenario that appears in the main text, there were three other scenarios presented below.

#### Health care scenario

*A recent report in a UK medical journal recommended a change in the process by which a patient's waiting time to see a surgeon for elective surgery (e.g., laser eye surgery, dental implant surgery, etc.) in one of the NHS hospitals is determined. Until recently anyone requesting to see a surgeon had to meet and talk with the General Practitioner first. The General Practitioner would have the discretion to decide whether the patient is eligible for a surgeon appointment and how much time they would have to wait for it.*

*A change in this system is going to be implemented soon such that patients are to be assessed on the basis of objective criteria such as age, medical history, disability, etc. Then, a nurse who uses a pre-programmed algorithm will assign a score that determines if and when the patient can see a surgeon.*

#### Salary determination scenario:

*Until recently, most companies that recruited graduates from UK universities paid those graduates different entry salaries even if they worked for the same company on the same job. All graduates' entry level salary was at the discretion of the future employer and was largely determined by their interactions during the interview process.*

*A recent article in the Financial Times suggests that this system is going to change such that companies will pay a standard salary to graduating students with some minor*

*variation on account of work- experience and major (e.g., engineering versus arts etc.). There will be differences between the companies, but each company will pay the same amount to everybody that they hire.*

Graduate admission scenario:

*Until recently, in most graduate schools in the UK, anyone applying for a graduate program would be requested to be interviewed by one of the professors at the school (from the relevant department) and the decision whether to admit the applicant would be at the discretion of this professor based on the applicant's interaction with that professor.*

*The council of higher education has recently published a report recommending a change in this system such that there will be an automatic system determining eligibility for being admitted to a higher level education program by assigning pre-determined weights to one's years of prior education, standardized test scores, age, and prior work experience. Then a computer algorithm will automatically give as an output one's score relative to others, and the applicants with top highest score will be automatically admitted to the program.*

## APPENDIX 4.4: Stimuli for scenarios study 6

Apart from the team coordinator scenario that appears in the main text, there were two other scenarios presented below.

### University paper competition scenario

*As part of your undergraduate studies you have written up a paper that you would like to submit to a prestigious international competition. Only one paper from each university program can be submitted to the competition and the university faculty is deciding which paper to support for the competition (based on criteria such as creativity, fluency of writing, student's GPA, etc.). When a few papers are rated the same based on the objective criteria, the Dean has the discretion to decide which paper to support based on interviews conducted with all authors who satisfy the objective criteria. **Ed, the Dean, is quite socially involved with the students and you and your fellow students all have very good personal relationships with him. [Ed, the Dean, is not very socially involved with the students and you and your fellow students all have only professional relationships with him].***

*You have been informed that your paper seems to satisfy the objective criteria but that there are also other papers that meet the same criteria and therefore you and the other authors will be interviewed by the Dean, who will make final decision. **Other students in your university will not know how many people or who was shortlisted for interviews (which means that if you do not do well in the interview they will not know about it), but will only learn about the final choice of the student whose paper will be sent to the competition. [Other students in your university will not know how many***

*people or who was shortlisted for interviews (which means that if you do not do well in the interview they will not know about it), but will only learn about the final choice of the student whose paper will be sent to the competition ].*

Bonus scenario

*You are working for CoolCompany and it is time for the annual bonus. The bonus amounts are based on objective criteria (such as tenure, target sales achieved, customers' satisfaction rating, etc.). However, since the company has additional revenues this year, direct managers are able to give extra bonuses to some of the employees. The process is such that that employees who satisfy the same objective criteria may get different extra amounts of bonus based on their direct managers' observations of them in the last three months. Ben, your direct manager, is the one to decide yours and your colleagues' extra bonuses based on his observations in the last three months. **Ben is quite socially involved with his employees and you and your colleagues who are under his supervision all have very good social relationships with him. [Ben is not very socially involved with his employees and you and your colleagues who are under his supervision all have only professional relationships with him ]***

*You are about to receive your annual bonus. **The extra bonus amounts decided by the managers will not be advertised and employees will not be allowed to discuss them among themselves. [The extra bonus amounts decided by the managers will not be advertised and employees will not be allowed to discuss them among themselves].***