Aino Salimäki and Robert B. Lount, Jr. 2008. Pay-system change as an affective event. Espoo, Finland. 42 pages. Helsinki University of Technology, Department of Industrial Engineering and Management, Working Paper no. 2008/1.

Helsinki University of Technology
Department of Industrial Engineering and Management
Laboratory of Work Psychology and Leadership

PAY-SYSTEM CHANGE AS AN AFFECTIVE EVENT

Aino Salimäki, Helsinki University of Technology
Robert B. Lount, Jr., The Ohio State University

Working Paper No 2008/1
Espoo, Finland 2008

Pay-System Change as an Affective Event

Aino Salimäki
Helsinki University of Technology

Robert B. Lount, Jr.
The Ohio State University

Author Note

Aino Salimäki, Helsinki University of Technology; and Robert B. Lount, Jr., Fisher College of Business, The Ohio State University.

We wish to thank Ministry of Labor and Ministry of Education in Finland that provided funding for the data collection as well as the universities that participated in the project. Funding for the preparation of this manuscript was provided by the Finnish Work Environment Fund and the Jenny and Antti Wihuri Foundation. We are indebted to Neal Ashkanasy, Joe Cooper, Robert L. Heneman, Raymond Noe, and Steffanie Wilk for their helpful comments on an earlier draft of this paper and Annika Holmborg for her assistance with the data collection. Finally, we would like to thank DIEM working paper series editor Satu Teerikangas for her encouraging comments on the manuscript.

Correspondence should be directed to: Aino Salimäki, Department of Industrial Engineering and Management, P.O Box 5500, 02015 TKK, Finland. E-mail: aino.salimaki@tkk.fi; Fax: (358) 9- 451 3665.

Keywords: AFFECTIVE EVENTS THEORY, COMPENSATION, MERIT PAY, PAY-SYSTEM CHANGE.

October 23, 2008

Note. Working paper only. Please don't cite without contacting the first author.

Abstract

According to the Affective Events Theory (Weiss & Cropanzano, 1996), employees react to events like changes in their monetary compensation and these affective reactions can partly explain why employees adopt certain attitudes and behaviors. We study employee reactions to a pay system change in two organizations that had recently adopted a new pay system based on job evaluation and performance appraisal. According to the results, the pay system elicited equal amounts of positive and negative affect, significantly depending on the direction and amount of change in an individual employees' pay. In a mood-congruent manner, positive affective reactions were related to high levels of effort, positive work behaviors and organizational commitment. However, the results regarding the negative affective reactions were not as straightforward. Negative affective reactions were related to lower levels of effort on the job, but also higher levels of positive work behaviors directed at improving the work environment. Overall, our results provide evidence to suggest that affective reactions are an important underlying mechanism which can help explain why a pay system change may influence employee behaviors and attitudes. The implications for theory and management practice are discussed.

PAY-SYSTEM CHANGE AS AN AFFECTIVE EVENT

Given the mixed results surrounding pay-reform success, researchers have been increasingly focused on understanding when and why incorporating a pay system will promote desired outcomes (for a review, see Rynes, Gerhart, & Parks, 2005). The research on employee pay systems has been focused on explaining 1) *incentive effects* (i.e., how compensation influences attitudes and behaviors or the current workforce) and 2) *sorting effects* (i.e., how compensation influences the ability and personality characteristics of the current workforce via attraction, selection and attrition.)

Although researchers have investigated many factors which explain how employees react to a pay reform, they have largely ignored how an individual's emotional reaction toward one's pay change impacts outcomes (Brief & Weiss, 2002). This omission is striking given that: 1) employee affect has been found to be an important predictor of several of the desired outcomes that employers seek to encourage by instating a new pay system (for a meta-analytic review, see Thoresen, Kaplan, Barsky, Warren & Chermont, 2003) and 2) research has demonstrated that certain pay systems elicit negative, and others positive affect (e.g., Begley & Lee, 2005; Shaw, Duffy, Jenkins & Gupta, 1999, Shaw, Duffy, Mitra, Lockhart & Bowler, 2003).

In the last decade or so, researchers and theorists have increasingly acknowledged that affective reactions are common in organizational settings, and our affective states can have important influences on employee attitudes and behaviors (for reviews, see Brief & Weiss, 2002; Forgas & George, 2001). This acknowledgement of the role of affect is nicely captured in one of the primary arguments of Affective Events Theory (AET, Weiss & Cropanzano, 1996) which

proposes that important events at one's work will elicit affective reactions, which partly explain why employees adopt certain attitudes or behaviors at work.

In the current paper, we present the results from a study that examines how affective reactions to a pay-system change are related to self-perceived accounts of desired outcomes (i.e., commitment, effort, and positive work behaviors). By incorporating key assumptions from Affective Events Theory (AET, Weiss & Cropanzono, 1996) and recent findings on the role of affect on cognition and behavior, we develop and test a model which predicts that affective reactions to a pay-system change would mediate the relationship between pay changes and outcomes. We test the predictions of this model with data gathered from two governmental organizations which had recently introduced a new pay system.

The structure of the literature review is four-fold. First, we introduce literature on the relevance of and challenges in pay reforms. Secondly, we review theory and prior work to suggest that a pay change will be viewed as an affective event. Third, we review literature on the role of affect in employee behavior and attitudes. Fourth, we introduce the primary hypotheses of the paper which, consistent with Affective Events Theory, argues that affective events (such as pay changes) are distal causes of behaviors and attitudes, mediated by affective reactions.

Literature Review and Hypotheses

In an effort to increase and/or maintain high levels of performance, organizations frequently rely on human resource practices to achieve desired attitudes and behaviors. One specific type of practice, which frequently requires the investment of large amounts of money and time, is the implementation of a new pay system (Cox, 2005). Pay systems have a great potential to be powerful motivators. Indeed, several meta-analyses have documented that performance contingent pay systems have a

substantial impact on employee performance (see for reviews Rynes, et al., 2005; Gerhart & Rynes, 2003; Jenkins, Mitra, Gupta & Shaw, 1998). One type of pay for performance practice is called merit pay, where pay increases are based on performance appraisals typically conducted by ones immediate supervisor. Although merit pay is the most widely used pay for performance program in organizations today, there is surprisingly little evidence on the incentive effects of these systems in particular (Rynes, et al., 2005; R.L. Heneman & Werner, 2005).

Moreover, practitioners have paid attention to the several kinds of the implementation problems that hamper the effectiveness of merit pay. These problems include, but are not limited to, the difficulty in creating measures for individual performance in interdependent work contexts, problems getting supervisors to provide credible assessments of performance for administrative purposes, as well as limited pay budgets available for merit increases because of the an annuity effect (see for a review Campbell, Campbell & Chia, 1998; Beer & Cannon, 2004). All of the implementation problems above result in a typically weak link between performance and pay increases (Heneman, R.L., 1990).

Thus, even if there is strong evidence to suggest that performance contingent pay systems would be strongly motivating to employees, the extent to which the systems actually are performance contingent in reality might be insignificant, and consequently, the effect on employee motivation marginal (Gerhart & Milkovich, 1992). Furthermore, many practitioners and academics alike have been concerned that organizations waste a significant amount of money in compensation systems because the organizations end up ‘hoping for A while rewarding for B’ (Kerr, 1995). Thus, organizations might end up wasting money because the compensation system motivates not-hoped-for behaviors (Kohn, 1993). For example, employees might

focus on their job task goals so intensively that they do not have as much time to help others (Wright, George, Farnsworth & McMahan, 1993), or perhaps develop the organization long term.

Pay-System Change as an Affective Event

Pay reforms also have another potential downside to them. Unlike other human resource management interventions such as training, shortcomings in the design or maintenance of pay-system change can cause significant problems such as bitter feelings and damage to important relationships (Beer & Cannon, 2004; Ledford & R.L. Heneman, 2000). Ledford and Heneman (2000) have argued that although most organizational changes can produce affective reactions in employees, changes in one's compensation seem to be especially capable to elicit affective reactions. A complete pay-system change will likely alter one's psychological contract at work (Rousseau & Greller, 1994), and should be viewed as an important event which will elicit affective reactions among employees.

In recent years, researchers have begun to explore the relationship between employee affect and compensation systems. For instance, Begley and Lee (2005) predicted that employees' tendency to experience high subjective distress, nervousness, anxiety and self-criticism – a personality factor called negative affectivity – should influence how employees react to a pay-at-risk bonus. They found that employees low in negative affectivity were more sensitive than those high in negative affectivity to changes in bonus awards. The authors interpret the results relying on the literature on met expectations. Those high in negative affectivity expected unfavorable outcome, so they were not surprised when they received a small bonus, and for this reason did not react strongly to it.

Relying on signal sensitivity theory, Shaw and colleagues (Shaw et al., 1999; Shaw et al., 2003) predicted that employees who generally feel active, cheerful, enthusiastic and alert – high in a personality factor called positive affectivity – would be very sensitive to reward signals, and would be more sensitive to pay increases than people low in positive affectivity. The results from their studies demonstrated that even when there have been no new changes associated with one's pay (Shaw et al., 1999), or the pay changes have been in line with existing merit pay policy (Shaw et al., 2003), individual differences in positive affectivity play a major role in terms of how individuals interpret their pay.

In the current study, we examine a pay system change in a context where a merit pay system was introduced to replace a system where pay was based on seniority and job titles. This new merit pay system, where pay is based on appraised value of the job and performance of the employee, was studied in a setting that had potential to activate both positive and negative affective reactions in employees. We argue that the amount of positive affect and negative affect that was activated would depend on the individual employee outcome from the pay system change. Thus, even though there are individual and contextual differences with respect to how meaningful money is to people (Mitchell & Mickel, 1999), if the new system led to an increase in one's earnings, this employee would have a positive affective reaction to this system. However, if the new system had a negative influence on earnings, the pay system would elicit a negative affective reaction.

The argument is relatively straight-forward, and based on the "laws of emotion" (Frijda, 1988), which conveys that events that satisfy an individual's goals, or promise to do so, produce positive emotions; events that harm or threaten the individual produce negative emotions. Depending on the intensity of these events

affective reactions should vary accordingly (e.g., a large raise would generally be viewed more positive than a small pay raise). Thus, we expected that the implementation of a new pay system would be considered as an affective event, such that a change in one's pay would elicit emotional reactions. More specifically, we hypothesized:

> *Hypothesis 1.* Pay changes will have an effect on the type of affective reaction employees have to the new pay system such that a positive pay change will elicit a positive affective reaction, whereas a negative pay change will elicit a negative affective reaction.

Affect and Employee Attitudes and Behaviors

A review of the current literature on human feelings yields the commonly used terms of affect, mood, and emotions. Although there are general distinctions between these three terms, with emotions beings conceptualized as being higher intensity and shorter lasting than moods (Forgas, 1995), the conceptualization of affect tends to encapsulate various aspects of moods and emotions (Watson, Clark, & Tellegen, 1999). Moreover, given that affect is generally seen as a longer lasting feeling state, organizational scientists have typically examined how affective states and affective traits impact efforts and behaviors.

Researchers have found that both state and trait affect can be represented in terms of two distinct dimensions: positive and negative affect (Watson & Clark, 1984; Watson & Tellegen, 1985; Watson, Clark & Tellegen, 1988). Within this framework, *state positive affect* (PA) represents the experience of feelings such as enthusiastic, alert, active, and energetic. Conversely, *state negative affect* (NA) refers to the experience of anger, guilt, fear, nervousness, and subjective stress (Watson & Clark, 1984). The affective states are about 90° apart in the structure of affect and virtually

independent (Tellegen, Watson & Clark, 1999). In the circumplex of affect, positive affect is a combination of pleasantness and high activation, and negative affect is a combination of unpleasantness and high activation. For this reason they are sometimes referred as to 'positive activation' and 'negative activation' (for further information, see Barrett & Russell, 1999).

Psychologists interested in the impact of affect on human cognition and behavior have formed several highly influential models which attempt to explain why and when positive and negative affective states will influence attitudes and behaviors (for reviews, see Clore, Schwarz, & Conway, 1994; Forgas, 1995; Isen 1987; Fredrickson 2001). Researchers have applied many of the basic findings from this research in an attempt to better predict under what circumstances and for what reasons employee affect influences job attitudes and behaviors (Brief & Weiss, 2002; George & Brief, 1996; Forgas & George, 2001). In recent years, researchers have begun examining how affective traits and states are related to a variety of desirable employee behaviors and attitudes. Forgas and George (2001) have argued that affective states can influence our judgments and actions in a *mood-congruent manner*, such that positive affective states may increase desirable employee attitudes and behaviors. Indeed, a meta-analytic review of the studies on this topic indicate that an individual's tendency to experience positive affect is associated with increases in a variety of successful outcomes and behaviors paralleling success (Lyubomirsky, King & Diener, 2005).

Research findings have shown that people experiencing positive affect tend to be more motivated, and thus work harder than individuals experiencing a neutral affect (Erez & Isen, 2002). More specifically, Erez and Isen (2002) demonstrated that positive affect had a facilitative effect on motivation and performance such that

participants experiencing positive affect performed better, exhibited more persistence, and reported higher levels of motivation than did affectively neutral participants. Also, Tsai, Chen and Liu (2007) have recently demonstrated that positive affect predicted self-efficacy, task persistence and coworker helping behaviors, which in turn translated into improved on task performance. In addition, people experiencing positive affect tend to engage in greater levels of positive work behaviors such as increased altruism (George, 1991) and more frequent helping behavior (e.g., Fisher, 2002; Isen & Baron, 1991). Consequently, we expected that positive affective reactions to pay system change would promote increased effort and high levels of positive work behaviors.

Hypothesis 2. Positive affective reactions to the pay system change will be related to higher levels of effort and positive work behaviors.

The prior research on the impact of negative affective states on cognition and behaviors has commonly provided mixed results. Some research has found support for the *mood-congruent impact* of negative affect on lower levels of self-efficacy and the setting of lower performance goals (Kavanagh & Bower, 1985). Negative affect has also been shown to reduce motivation on difficult tasks (Brinkman & Gendolla, 2008; for a review, see Gendolla 2000). Moreover, research has found that negative affective states are linked to reduced interpersonal social contact (Cunningham, 1988) and increased competitiveness with others (Baron, 1990).

However, there exists a fair amount of evidence to suggest that negative affect can serve to increase helping behavior (for a review, see Carlson & Miller, 1987). The result can be explained by *mood-as-input model* (Martin, Ward, Achee & Wyer, 1993), which has been argued to explain why employees experiencing negative affect can sometimes perform especially well (George & Zhou, 2002). The mood-as-input

model argues that negative affect serves as a signal to a person that something is wrong in their environment, and thus prompts people to search for ways to 'fix the situation'.

Carver (2001) argues that the confusion in the literature on affect can be improved by considering the *functional bases of behavior*. Based on literature from neuropsychology, psychopathology and conditioning, he argues that positive and negative affect can elicit asymmetrical behavioral reactions. Approach system is activated when one is pursuing rewards (as would be the case when behavior is reinforced with a pay increase). In turn, avoidance system is activated with one is exposed to a threatening situation (as might be the case with a negative pay changes). The avoidance system protects from threats, and restores one's access to energy supplies in preparation to some new activity. In sum, Carver (2001) argues that, for different reasons, negative affects can activate approach and avoidance processes, which are managed through different self-regulatory systems, and for this reason an asymmetry in behavioral reactions is commonly observed.

Given the abundance of theoretical approaches and mixed results in the literature, we concluded that the negative affect stemming from the pay-system change could equally well reduce employee effort and positive work behaviors but also engage employees with increased effort and promote high levels of positive work behaviors. Consequently, we formulate the following competing hypotheses.

Hypothesis 3a. Negative affective reactions to the pay system change will be related to lower levels employee effort and positive work behaviors.

Hypothesis 3b. Negative affective reactions to pay system change will be related to higher levels of employee effort and positive work behaviors.

Given the time and energy required to reform a pay system, it is not surprising that organizations hope not only to influence behaviors, but also the attitudes that employees have about the organization (R.L. Heneman & Werner, 2005). One particular type of job attitude, which has been shown to have important implications for many job relevant behaviors and attitudes, is organizational commitment (for reviews, see Mathieu & Zajac, 1990; Meyer & Allen, 1997; Solinger, van Olffen, & Roe, 2008). Frequently conceptualized to be a multidimensional construct, organizational commitment can be defined as a "psychological state that links an individual to an organization" (Allen & Meyer, 1990, p. 14). Given that the self-report of one's commitment to his/her organization depends on an evaluation of the bond to his/her organization, it has been argued that our affective states will likely impact this judgment (Ashkanasy & Daus, 2002).

According to the affect-as-information heuristic (Clore et al., 1994), when people are asked to make an evaluation about something, they often ask themselves "how do I feel about it?" Presumably, if people are experiencing negative affect, even if it is unrelated to the judgment at hand, this negative affect may impact one's judgment. Thus, consistent with the affect-as-information heuristic, if employees are asked about their commitment to their organization, their current affective states will be used as a source of information. The expectation that affective states will impact organizational commitment is consistent with the findings of a recent meta-analysis which documented a positive relationship ($r = .31$) between commitment and positive affect and a negative relationship between negative affect and commitment ($r = -.28$) (Thorensen et al., 2003). Aligned with previous literature, it was hypothesized that affective reactions following a pay-system change would impact reports of organizational commitment.

Hypothesis 4. Positive affective reactions will be related to high levels organizational commitment and negative affective reactions will be related to low levels of organizational commitment.

Affective Reactions as Mediators between Pay Changes and Outcomes

Affective Events Theory (AET) proposes that events at work produce affective reactions which then influence attitudes and behaviors (Weiss & Cropanzano, 1996). One of the main arguments of AET is that the impact of work events on attitudes and behaviors is underestimated because the influence, and even the existence, of affective reactions are often ignored. AET proposes that events that occur in our job can impact our affective states, and that these feeling states can then impact important work attitudes and behaviors. As discussed by Weiss and Cropanzano (1996), there are affect-driven behaviors (e.g., helping behavior) which will be directly impacted by affective states, and there are judgment related behaviors (e.g., intention to quit) which tend to be more influenced by work attitudes. One of the core arguments of AET is that affective reactions, stemming following an important event, should mediate the relationship between work events and outcomes on attitudes and behaviors. Thus, events are assumed to be distal causes of behaviors and attitudes through affective mediation (see Figure 1).

Insert Figure 1 about here

In recent years, empirical findings have provided some support to the predictions of AET (e.g., Fisher, 2002; Judge, Scott, & Illies, 2006; Mignonac & Herrbach, 2004; Wegge, van Dick, Fisher, West, & Dawson, 2006; Weiss, Nicholas, & Daus, 1999). For instance, Mignonac and Herrbach (2004) found that affective

reactions mediated the relationship between negative events and work attitudes. Moreover, Fisher (2002) demonstrated that positive and negative affective reactions had somewhat differential antecedents and consequences. Having an enriched job was associated with increased positive affect, whereas role conflict was associated with increased negative affect. Positive affective reactions were found to predict affective commitment and helping behavior (Fisher, 2002).

Although this research has provided important knowledge related to the predictions of AET, the empirical literature has yet to examine the impact of a discrete, important work event on employee affect and subsequent attitudes and behaviors. More specifically, although Weiss and Cropanzano (1996: 31) stressed that this event should be an important, such that it creates a change in what one is currently experiencing at work, to date the empirical literature has yet to adequately test this prediction. Prior studies have typically examined characteristics that are associated with one's job (e.g., autonomy, supervisor support, participation in decisions, etc.) instead of a distinct and important change. The implementation of a new pay system, which potentially alters one's financial compensation, is an important event which has been argued to impact employee affective states (Ledford & R.L. Heneman, 2000). Viewing a pay change as an affective event, one should expect that affective reactions following a change in one's pay should influence employee behaviors (i.e., effort and positive work behaviors) and attitudes (i.e., organizational commitment). Thus, we hypothesized:

Hypothesis 5. The impact of pay changes on effort, positive work behaviors and organizational commitment will be mediated by affective reactions.

The model detailing our hypotheses is depicted in Figure 2.

Insert Figure 2 about here

Methods

Target Organizations

To study the impact of a pay-system change on affective reactions, it was necessary to examine these phenomena in a setting where a new pay system was recently introduced. Two Finnish public universities, which had recently been required to incorporate a new pay system, agreed to participate in our study. The new pay system was negotiated by the Ministry of Education and three main employee unions in Finland (agreement reached Dec 16th 2005). According to the central government pay policy, some of the main goals of the pay reform were to improve the work motivation of the employees, as well as attract and retain skilled workforce.

The new system applied to all Finnish university personnel regardless of the nature of the job, employment contract, or the source of salary funding. Whereas in the old system, compensation was primarily based on job grades and the seniority of an employee, in the new system, compensation was primarily was based on multisource job evaluation and performance appraisals. Following this, the compensation consisted of two parts, job-based based pay and merit pay, where the latter could contribute up to another 46 percent towards one's pay (for example, if someone was making as much as 100,000 euros in job-based pay in a year that person could potentially earn up to 146,000 euros assuming they received a perfect performance appraisal).

In this reform, some of the employees benefited financially (i.e. received a pay increase), and some were informed that they were actually 'overpaid' for their current

job. If an employee's new salary was appraised to be lower than their current salary; they would receive 'guaranteed pay' for as long as the person stayed in the same position. According to the Ministry of Education, overall a little less than one third (27 percent) of the personnel at these two universities received a pay guarantee in spring 2007. This pay guarantee had implications for the future pay prospects of the employee since in order to get a pay increase, the person would have to first catch up with the performance expectations required for the level of pay guarantee, and then exceed those.

Pay increases were to be paid out gradually during a transfer period (from January 2006 to January 2008 at the first university, and until October 2009 at the second). Thus, just over 47 percent of the pay increases had been paid out when the study was conducted in February 2007. As a result, the employees could have received two types of pay changes: pay increases or a pay guarantee.

Sample and Data Collection

Our survey was made available to 1,000 employees across both organizations (i.e., 500 people from each organization). The random samples were drawn from the pool of all personnel who received pay according to the new pay system. The sampling was done with respect to the proportion of different jobs in the organizations – both academic and administrative personnel.

The data were gathered through an internet survey. Employees were sent individual codes through which they had access to the survey. The records-based pay data was linked to survey responses through these codes. It was stressed to the employees that the employers would not be able to have access to their individual responses. About half of the surveyed employees submitted a complete survey: [N1=248 (response rate 50 percent) and N2=247 (response rate 49 percent)], resulting

in the total of 495 responses. According to Baruch's (1999) review of response rates in organizational research, our 50% response rate was acceptable as it was just under his assessment of the mean response rate, 56% (SD = 20).

The obtained records-based pay data, drawn from university records, contained information on prior monthly pay levels and pay changes. To compute a 'total pay change' for each employee, the following formula was used:

$$Y = X1 + X2 - X3 \qquad (1)$$

Where:

Y = total pay change

X1 = already paid increases (47.1 percent of the pay raises were received when data were gathered)

X2 = future pay increases (the rest of the pay increases to be paid during the transfer period)

X3 = pay guarantee

Regarding the employees who responded to our survey, the majority (68.3 percent) of employees received a pay increase and a little less than one fourth (24.3 percent) of employees received pay guarantee. For less than one tenth (7.4 percent) of the employees the pay reform did not have any effect. The mean pay change in monthly pay was +141.8 euros (SD 330) at the first university and +160.3 euros (SD 297) at the second university. The mean change was +150.9 euros (SD 314) for the whole sample. The distribution of the pay changes is shown in Figure 3. The maximum negative pay change (i.e. pay guarantee) in the whole sample was -921.3 and maximum positive pay change (i.e. pay increase) in the sample was +1087.3.

Insert Figure 3 about here

Gerhart and Milkovich (1992) have suggested that any study which explores the effect of pay for performance practices on employee attitudes and behaviors must first establish that there indeed is pay for performance in practice. Even though this study does not focus on the implications merit pay *per se*, following the recommendation, we also report the correlation between pay change and overall supervisory performance appraisal score (the only performance measure available in this data, varying between 1 and 11.5, with a mean of 6.1 and SD 1.5). The correlation is $r = .186$, $p < .001$, suggesting that the pay changes were, at least partly, based on employee performance.

We performed an analysis of missing data with regard to gender, pay level and pay changes. No statistically significant differences emerged in any of these comparisons, thereby alleviating concerns that our respondents may have differed on relevant dimensions as compared to non-respondents.

Measures

The positive and negative affective reactions to the pay system were measured by the PANAS scale (Watson et al., 1988). The respondents were asked: “To what degree have you been feeling the following emotions during the pay system implementation?” The items focused on positive affective reactions, such as “interested” or “proud”, and negative affective reactions as a response to the pay system implementation, such as “distressed” or “upset”. All items were rated on a 7-point Likert scale ranging from “never” (1) to “all the time” (7). The internal consistencies (Cronbach’s alphas) of the scales were .86 for positive affective reactions (8 items) and .90 for negative affective reactions (10 items).

To asses whether the employees thought their pay change will impact their effort on the job, we asked them directly: “Overall, how do you think the pay system change will affect your work?” The responses were rated on a 7-point Likert scale which ranged from “the change will make me work a lot less hard than before” (1) to “the change will make me work a lot harder than before” (7). This variable, which we call impact on effort, is a direct estimate provided by the employee whether they believe that the pay change will have an impact on their effort on the job.

Positive work behaviors were measured using Lehman and Simpson (1992) scale. This scale was deemed especially appropriate for our setting because the items of the scale measure behaviors that do not depend on the type of job (such as academic or administrative), or work context. The respondents rated the degree to which during the previous year (when they had discovered the impact of pay system change on their personal pay) they had “done more work then required”, “volunteered to work overtime”, “made attempts to change work conditions”, “negotiated with supervisors to improve job”, and “tried to think of ways to do job better”. The items were rated on a 7-point Likert scale ranging from “never” (1) to “all the time” (7). The internal consistency (Cronbach’s alpha) estimate was .70, which was consistent with previous research which has used this scale (Cropanzano, Howes, Grandey & Toth, 1997; Lehman & Simpson, 1992).

The strength of organizational commitment was measured by three items adapted from Klein (2008). The items included, “How committed are you to your organization?”, “How dedicated are you to your organization?”, and “To what extent do you feel bound to the future of the organization?” The items were measured with 5-point Likert scale ranging from “little if at all” (1) to “to a great extent” (5). The internal consistency (Cronbach’s alpha) of the scale was .92.

All of the scales were translated from English to Finnish and pilot testing suggested that the translation did not influence their interpretation.

Results

Structural equation modeling was used because we sought to test several mediation hypotheses (James, Mulaik, & Brett, 2006). Structural equation modeling utilized full-information maximum likelihood estimation (FIML) for the path model formed of summated scales. Recommendations made by Hu and Bentler (1999) were used when evaluating goodness of fit indices of the model:

1 RMSEA (Root mean squared error of approximation) .06 or smaller

2 CFI (Comparative fit index) no less than .95.

The error between the data and the model has also been estimated by χ^2 -value.

The correlations between variables are presented in Table 1. Pay changes correlated significantly with both positive and negative affective reactions, as expected. Aligned with our hypothesis, positive affective reactions correlated significantly with effort and positive work behaviors. Aligned with the first competing hypothesis (3a), there was a *mood-congruent* significant negative correlation between negative affective reactions and impact on effort. However, the correlation between negative affective reactions and positive work behaviors was positive, supporting our second competing hypothesis (3b) drawing from the *mood-as-input model*. Organizational commitment correlated significantly with positive affective reactions but did not significantly correlate with negative affective reactions.

Insert Table 1 about here

Next, we tested the theoretical path model with structural equation modeling (SEM). In this model we controlled for the organization (N1=248, N2=247), gender (54.1 percent men), tenure (mean tenure 12 years), job type (academics N=358, administrative personnel N=137) and monthly base pay levels before the reform (mean 2925 euros; min 1450 euros, max 6753 euros). The standardized estimates for the path model testing all hypotheses simultaneously are presented in Figure 4. The fit for the model was good [χ^2 (df = 23) = 48.9, CFI = .97 (> .95; Hu & Bentler, 1999), RMSEA = .05 (< .06; Hu & Bentler, 1999)]. In total, the model explained 28 percent of the variance in work effort (27 percent without controls), 26 percent of the variance in positive work behaviors (14 percent without controls) and 16 percent of the variance in organizational commitment (8 percent without controls).

Insert Figure 4 about here

We also performed supplemental analyses on the effect of pay changes separately for people receiving a pay increase (68.3 percent) and a pay guarantee (24.3 percent) to analyze the effect of positive and negative pay changes separately. The estimate for the relationship between pay increase and positive affective reactions was positive (β = .18, p < .001) whereas it was negative between pay increase and negative affective reactions (β = -.10, p < .05) when controlling for organization, tenure, job type and base pay before the reform. The estimate for the relationship between pay guarantee and positive affective reactions was not significant (β = .00, n.s.). However, the estimate for the relationship between pay guarantee and negative affective reactions was significant (β = .09, p < .05) when controlling for organization, tenure, job type and base pay before the reform.

Our hypothesized model specifies that affective reactions should mediate the relationships between pay change and impact on effort, positive work behavior as well as organizational commitment. The SEM model in Figure 4 provides the basis for testing whether affective reactions partially or fully mediate the relationship between pay changes and outcomes. To further test the mediation hypotheses, we compared the partial mediation models with the original model (MacKinnon, Lockwood, Hoffman, West & Sheets, 2002).

The results show that the direct relationship between pay change and impact on effort at work was significant ($\beta = .15$, $p < .001$) but the direct paths from pay changes to positive work behaviors or organizational commitment were not significant. The model that accounts for the direct effect from pay changes to effort provided significantly better fit for the data: $\Delta\chi(df = 1) = 14.5$, $p < .001$ (the model fit: $\chi^2(df = 22) = 34.4$, CFI = .98, RMSEA = .03). The model explains additional 2 percent of the variance in effort. Thus, according to the results, affective reactions partially mediated the relationship between pay change and work effort. Considering that adding direct association between pay change and either positive work behaviors or organizational commitment was not significant and the model did not fit the data better, we conclude that positive affective reactions fully mediate the relationship between pay change and these variables. Given that negative affective reactions were not significantly related to organizational commitment, we can only conclude that negative affective reactions fully mediate the relationship between pay change and positive work behaviors.

Finally, we also re-ran our statistical models using additional statistical procedures (i.e., the single-method factor approach described by Podsakoff, MacKenzie, Lee, & Podsakoff, 2003: 894) to help control for common method

variance. The outcomes from the analysis showed that controlling for this additional variance had no effect on the statistical significance of our estimates.

A summary of our hypotheses is provided in Table 2. Aligned with our hypotheses, pay changes predicted employee affective reactions to pay system change (H1). Also, as expected, positive affective reactions were positively related to implications on effort and positive work behaviors (H2). Negative affective reactions were negatively related to implications for effort (H3a) in mood-congruent manner. However, the relation between negative affective reactions and positive work behaviors was positive (H3b), which supports the competing mood-as-input view. Regarding organizational commitment, our hypothesis was supported in the case of positive affective reactions but not in the case of negative affective reactions as the latter did not significantly predict organizational commitment (H4).

Insert Table 2 about here

Because affective reactions fully mediated the relationship between pay changes and positive work behaviors as well as organizational commitment, the results imply that pay changes are distal causes of these. However, affective reactions only partially mediated the relationship between pay changes and effort. This suggests that pay changes also have a direct impact on effort. Thus, the results provide some support for full mediation and some support for partial mediation between pay changes and outcomes (H5).

Discussion

The present study contributes to the literature that aims at explaining how compensation influences attitudes and behaviors of the current workforce, often

referred to *incentive effects*. As suggested in recent literature regarding employee reactions to compensation decisions, pay systems can elicit both negative (Begley & Lee, 2005), and positive affect in employees (Shaw et al, 1999; Shaw et al, 2003). In the case of our study, depending on the direction of one's pay change, the system promoted virtually equally amounts of positive and negative affect in employees. The current findings suggest that pay changes can be viewed as affective events, which have important implications for producing desired work outcomes, such as positive work behaviors, effort, and organizational commitment. More specifically, the results of our study show that affective reactions, caused by changes in one's pay from the implementation of a new pay system, at least partially mediate the relationship between pay changes and desired employee behaviors and attitudes. These results provide additional support for some of the key predictions of Affective Events Theory (AET, Weiss & Cropranzano, 1996), and suggest that paying more attention to affective reactions will aid compensation researchers and practitioners in better predicting how pay changes may impact desired work outcomes.

The results from this study demonstrate that positive and negative affective reactions to a pay-system change are, in part, a consequence of positive and negative pay changes. This is intuitive—but important—given that these affective reactions were found to be related to important outcomes such as effort, positive work behaviors, and organizational commitment. More specifically, our findings are consistent with prior work which has found *positive affective states* to increase effort (e.g. Erez & Isen, 2002; Davis, Kirby & Curtis, 2007), positive work behaviors such as altruistic and helping behaviors (Isen & Baron, 1991; George, 1991), and organizational commitment (Thorensen et al., 2003).

With regard to the impact of *negative affective states* on behaviors, our results provide mixed support to the competing views. On one hand, negative affective reactions were related to a decrease in reported effort on the job in a *mood-congruent manner*. On the other, our finding that negative affective reactions were related to higher levels of positive work behaviors is consistent with the predictions of the *mood-as-input model* (Martin, Ward, Achee & Wyer, 1993). These mixed findings for the impact of negative affect is consistent with the *functional models* which posit that negative affect can produce diverse behavioral reactions in employees (Carver, 2001). Our results basically suggest that angered/disappointed employees were reporting that they are not going to focus on improving their performance on the job – instead they are focusing on positively changing the work environment around them. We are hesitant to argue this given the reliance on self-report data, but believe that our understanding of the phenomena will be improved when the functional bases of negative affect are considered further.

The current study is the first to directly examine how a discrete important work event, as described by Weiss and Croprazano (1996), elicits affective reactions and furthermore has implications for attitudes and behaviors. Whereas prior studies have tended to explore how routine characteristics about one's job (e.g., autonomy) influence affective states and attitudes (e.g., Fisher, 2002; Judge et al., 2006; Wegge et al., 2006), the current study directly examined how an important discrete work event (i.e., a reform of the pay system) impacted affective states, which were related, in turn, with desired work outcomes. Taken together, by providing evidence that affective reactions mediate the relationship between an important work event and behaviors and attitudes, the current findings provide additional support for AET and compliment the findings of the extant research in this regard.

Managerial Implications

The findings of the current paper have implications for managers and organizations seeking to successfully manage a pay system change. More specifically, our results suggest that a pay change can be viewed as an affective event, and the affective reaction is in part, directly a result from individual-level changes in pay. Employee affective reactions to such an event, in-turn, will likely have important implications for producing desired employee attitudes and behaviors. Given that affective reactions to the pay-system change were shown to have an important role (explaining 8-27 percent of the variance) in the desired outcomes, managers may wish to put attention and thought into to figuring out how they can limit negative affective reactions, and encourage positive affective reactions following a pay change. For instance, taking the time to ensure that employees have high perceptions of fairness and justice (both procedural and distributive) in how pay allocations were decided should help reduce negative affect (see for a review Barsky & Kaplan, 2007). Future studies should examine if certain types of managerial or organizational practices could help manage employee affective reactions, or their impact on employee attitudes and behaviors.

Moreover, another important implication suggested by this study is that a pay guarantee can be considered as a negative event – even if it would not directly reduce the current pay of the employee. Thus, even though the participants in our sample who received a pay guarantee did not technically receive a pay cut, they still were likely to experience a negative affective reaction from this outcome. There might be a host of psychological reasons for why people receiving a pay guarantee were unhappy with this outcome (e.g., unmet expectations, upward social comparison, and reduced chances for future pay increases) and future research is required to better understand

these processes. In the meantime, the current results suggest that organizations who decide to use a pay guarantee following a pay-system change may encounter some adverse effects from this procedure.

Limitations and Future Research Directions

Although the current findings provide an important test of AET and further our knowledge of the impact of a pay change on affective reactions, it is important to highlight that the current study has its limitations. One of the main goals of the pay reform examined in the current paper was to improve the work motivation of the employees, and retain the highly motivated and skilled workforce. We should note that one cannot evaluate the success of the reform in these aspects because this study was cross-sectional. Thus, we are exploring the differences between survey respondents, not how their individual responses/behaviors would change long-term. Longitudinal research is needed in order to evaluate how employee reactions change as a result of reform.

Because affective reactions and the dependent variables were collected at the same time from the participant, concerns can be raised whether common method variance would explain the results. To help reduce the likelihood of this possibility, several steps were taken in the survey design and administration (Podsakoff et al., 2003). More specifically: 1) information about the double blind data gathering procedure (where the identity of the respondents remained unknown to the researchers, and organizational representatives who provided the pay data) was communicated to everyone to reduce social desirability, and 2) pilot tests were conducted to reduce survey item ambiguity. Furthermore, we re-ran our statistical models using additional statistical procedures (i.e., the single-method factor approach described by Podsakoff et al., 2003: 894) to help control for common method

variance. Results showed that controlling for this additional variance had no effect on the inferences drawn from our data. Despite the steps taken, we recognize that its potential influence on the results cannot be completely eliminated.

Moreover, the use of a cross-sectional approach meant that we relied on employees perceptions of affect and behaviors, which might have created a bias toward certain kinds of responses (Spector, 2006). Also, it would have been ideal to have collected data on affective reactions at multiple points in time to capture a more accurate and complete view of the affective reactions of employees. Collecting data at separate points in time would help alleviate concerns that the interpretation of an event may changed over time (Mitchell, Thompson, Peterson & Cronk, 1997; Wanous & Reichers, 2003). Overall, future research should consider collecting data at multiple points, and also preferably from several sources (e.g., supervisors and objective performance data) to reduce concerns about common method bias.

Finally, our measurement of affective reactions to a pay change was conceptualized to be a "state" type of measure. However, it is unclear to what degree these responses were confounded with "trait" affect. Because trait and state affect can be related with one another (Barsky & Kaplan, 2007; Thorensen et al., 2003), such as for example in long-term, state affect can turn into trait affect (Spector, Zaph, Chen & Frese, 2000), the extent to which our results were stemming from state versus trait positive affect remains unclear. Although several studies have not demonstrated differential outcomes for state and trait affect (for a review, see Thorensen et al., 2003), others have found differences (e.g., George, 1991). Future work may wish to more closely examine whether state versus trait affect differentially impacts outcomes.

Conclusion

The results of the current paper suggest that we can improve our understanding on employee reactions to a pay-system change by acknowledging that affective reactions to one's pay change can have important implications for eliciting desired behaviors and attitudes. Consistent with the predictions of AET, the results presented in the current paper suggest that employee affective reactions influence the occurrence of several desired outcomes (i.e., positive work behaviors, effort, and organizational commitment). We hope that this paper will encourage researchers to further theorize and explore the role of affective reactions in incentive and sorting effects resulting from pay reforms.

References

Allen, N. J., & Meyer, J. P. (1990). The measurement and antecedents of affective, continuance, and normative commitment to the organization. *Journal of Occupational Psychology, 63,* 1-18.

Ashkanasy, N. M., & Daus, C. S. (2002). Emotion in the workplace: The new challenge for managers. *Academy of Management Executive, 16,* 76-86.

Baron, R. A. (1990). Environmentally induced positive affect: Its impact on self-efficacy, task-performance, negotiation, and conflict. *Journal of Applied Social Psychology, 20,* 368-384.

Barrett, L.F., & Russell, J.A. (1999). The structure of current affect: Controversies and emerging consensus. *Current Directions in Psychological Science, 8,* 10-14.

Barsky, A., & Kaplan, S.A. (2007). If you feel bad, it's unfair: A quantitative synthesis of affect and organizational justice perceptions. *Journal of Applied Psychology, 92,* 286-295.

Baruch, Y. (1999). Response rate in academic studies: A comparative analysis. *Human Relations, 52,* 421-438.

Beer, M., & Cannon, M. (2004). Promise and peril in implementing pay-for-performance. *Human Resource Management, 43,* 3–48.

Begley, T., & Lee, C. (2005). The Role of Negative Affectivity in Pay-at-Risk Reactions: A Longitudinal Study. *Journal of Applied Psychology, 90,* 382-388.

Brief, A.P., & Weiss, H.M. (2002). Organizational behavior: Affect in the workplace. *Annual Review of Psychology, 53,* 279-307.

Campbell, D.J., Campbell, K.M., & Chia, H.-B. (1998). Merit pay, performance appraisal, and individual motivation: An analysis and alternative. *Human Resource Management, 37,* 113-146.

Carlson, M., & Miller, N. (1987). Explanation of the relation between negative mood and helping. *Psychological Bulletin, 102,* 91-108.

Carver, C.S. (2001). Affect and the functional bases of behavior: On the dimensional structure of affective experience. *Personality and Social Psychology Review, 5,* 345-356.

Clore, G. L., Schwarz, N., & Conway, M. (1994). Affective causes and consequences of social information processing. In R. S. Wyer & T. K. Srull (Eds.), *Handbook of social cognition*: *Vol. 1. Basic processes*, 2nd ed.: 323-417. Hillsdale, NJ: Erlbaum.

Cox, A. (2005). The outcomes of variable pay systems: tales of multiple costs and unforeseen consequences. *International Journal of Human Resource Management, 16,* 1475-1497.

Cropanzano, R., Howes, J.C., Grandey, A.A., & Toth, P. (1997). The relationship of organizational politics and support to work behaviors, attitudes, and stress. *Journal of Organizational Behavior, 18,* 159-180.

Cunningham, M. R. (1988). What do you do when you're happy or blue? Mood, expectancies, and behavioral interest. *Motivation and Emotion, 12,* 309-331.

Davis, M.A., Kirby, S. L., & Curtis, M.B. (2007). The influence of affect on goal choice and task performance. *Journal of Applied Social Psychology, 37,* 14 - 42.

Erez, A., & Isen, A. M. (2002). The influence of positive affect on the components of expectancy motivation. *Journal of Applied Psychology, 87,* 1055-1067.

Fisher, C. D. (2002). Antecedents and consequences of real-time affective reactions at work. *Motivation and Emotion, 26,* 3-30.

Forgas, J. P. (1995). Mood and judgment: The affect infusion model (AIM). *Psychological Bulletin, 117,* 36-66.

Forgas, J.P., & George, J.M. (2001). Affective influences on judgments and behavior in organizations: An information processing perspective. *Organizational Behavior and Human Decision Processes, 86,* 3-34.

Fredrickson, B. L. (2001). The role of positive emotions in positive psychology: The broaden-and-build theory of positive emotions. *American Psychologist, 56,* 218-226.

Frijda, N.H. (1988). The laws of emotion. *American Psychologist, 43,* 349-358.

Gendolla, G. H. E. (2000). On the impact of mood on behavior: An integrative theory and a review. *Review of General Psychology, 4,* 378–408.

George, J. M. (1991). State or trait: Effects of positive mood on prosocial behaviors at work. *Journal of Applied Psychology, 76,* 299-307.

George, J. M., & Brief, A. P. (1996). Motivational agendas in the workplace: The effects of feelings on focus of attention and work motivation. In B. M. Staw & L. L. Cummings (Eds.), *Research in organizational behavior, Vol. 18*: 75-109. Greenwich, CT: JAI.

George, J. M., & Zhou. J. (2002). Understanding when bad moods foster creativity and good ones don't: The role of context and clarity of feelings. *Journal of Applied Psychology, 87,* 687-697.

Gerhart, B., & Milkovich, G.T. (1992). Employee compensation: Research and practice. In M.D. Dunnette & L.M. Hough (Eds.) *Handbook of Industrial and*

organizational psychology, Vol. 3 pp. 2nd. ed.: 481-569. Palo Alto, CA: Consulting Psychologists Press.

Gerhart, B., & Rynes, S.L. (2003). *Compensation: Theory, evidence, and strategic implications.* Thousand Oaks, CA: Sage.

Heneman, R.L. (1990). Merit pay research. *Research in Personnel and Human Resource Management, 8*, 203-263.

Heneman, R.L., & Werner, J.M. (2005). *Merit pay: Linking pay to performance in a changing world*. Connecticut: Information Age Publishing.

Hu, L.-T., & Bentler, P.M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural Equation Modeling, 6*, 1-55.

Isen, A. M. (1987). Positive affect, cognitive processes, and social behavior. In L. Berkowitz (Ed.), *Advances in experimental social psychology, 20*: 203-253. New York: Academic Press.

Isen, A.M., & Baron, R.A. (1991). Positive affect as a factor in organizational behavior, In B.M. Staw & L.L. Cummings (Eds.) *Research in Organizational Behavior, 13*: 1-53. Greenwich, CT: JAI Press.

James, L. R, Mulaik, S.A., & Brett, J.M. (2006). A tale of two methods. *Organizational Research Methods, 9*, 233-244.

Jenkins, D.G. Jr., Gupta, N., Mitra, A., & Shaw, J.D. (1998). Are financial incentives related to performance? A meta-analytic review of empirical research. *Journal of Applied Psychology, 81*, 777-787.

Judge, T. A., Scott, B. A., & Illies, R. (2006). Hostility, job attitudes, and workplace deviance: Test of a multilevel model. *Journal of Applied Psychology, 91*, 126-138.

Kavanagh, D. J., & Bower, G. H. (1985). Mood and self-efficacy: Impact of joy and sadness on perceived capabilities. *Cognitive Therapy and Research, 9,* 507-525.

Kerr, S. (1995). On the folly of rewarding A, while hoping for B. *Academy of Management Executive, 9,* 7-15.

Klein, H. J. (2008). *A measure of commitment strength.* Unpublished manuscript. The Ohio State University.

Kohn, A. (1993). Why Incentive Plans Cannot Work, *Harvard Business Review, September-October,* 54-63.

Ledford, G. E., & Heneman, R. L. (2000). Compensation: A troublesome lead system in organizational change. In M. Beer & N. Noria (Eds.) *Breaking the Code of Change* (pp. 307 – 322). Cambridge, MA: Harvard Business School Press.

Lehman, W.E.K., & Simpson, D.D. (1992). Employee substance use and on-the-job behaviors. *Journal of Applied Psychology, 77,* 309-321.

Lyubomirsky, S., King, L., & Diener, E. (2005). The benefits of frequent positive affect: Does happiness lead to success? *Psychological Bulletin, 131,* 803-855.

MacKinnon, D. P., Lockwood, C. M., Hoffman, J. M., West, S. G., & Sheets, V. (2002). A comparison of methods to test mediation and other intervening variable effects. *Psychological Methods, 7,* 83–104.

Martin, L. L., Ward, D. W., Achee, J. W., & Wyer, R. S. (1993). Mood as input: People have to interpret the motivational implications of their moods. *Journal of Personality and Social Psychology, 64,* 317-326.

Mathieu, J. E., & Zajac, D. M. (1990). A review and meta-analysis of the antecedents, correlates, and consequences of organizational commitment. *Psychological Bulletin, 108,* 171-194.

Meyer, J. P., & Allen, N.J. (1997). *Commitment in the workplace: Theory, research, and application*. London: Sage.

Mignonac, K., & Herrbach, O. (2004). Linking work events, affective states, and attitudes: An empirical study of managers' emotions. *Journal of Business and Psychology, 19,* 221-240.

Milkovich, G.T., & Newman, J.M. (2005). *Compensation.* Boston, MA: Irwin, McGraw-Hill.

Mitchell, T.R., & Mickel, A.E. (1999). The meaning of money: An individual-difference perspective. *The Academy of Management Review, 24,* 568-578.

Mitchell, T.R., Thompson, L., Peterson, E., & Cronk, R. (1997). Temporal adjustments in the evaluation of events: The "rosy view". *Journal of Experimental Social Psychology, 33,* 421-448.

Podsakoff, P.M., MacKenzie, S.M., Lee, J., & Podsakoff, N.P. (2003). Common method variance in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology, 88,* 879-903.

Rousseau, D.M., & Greller, M.M. (1994). Human Resource Practices: Administrative Contract Makers. *Human Resource Management, 33,* 385-401.

Rynes, S.L., Gerhart, B., & Parks, L. (2005). Personnel psychology: Performance evaluation and pay for performance. *Annual Review of Psychology, 56,* 571-600.

Shaw, J.D., Duffy, M.K., Jenkins, G.D., Jr., & Gupta, N. (1999). Positive and negative affect, signal sensitivity, and pay satisfaction. *Journal of Management, 25,* 189-205.

Shaw, J.D., Duffy, M.K., Mitra, A., Lockhart, D., & Bowler, W.M. (2003). Reactions to merit pay increases: A longitudinal test of a signal sensitivity theory. *Journal of Applied Psychology, 88*, 538-544.

Solinger, O. N., van Olffen, W., & Roe, R. A. (2008). Beyond the three-component model of organizational commitment. *Journal of Applied Psychology, 93*, 70-83.

Spector, P.E. (2006). Method variance in organizational research: Truth or urban legend? *Organizational Research Methods, 9,* 221-232.

Spector, P.E., Zaph, D., Chen, P.Y. & Frese, M. (2000). Why negative affectivity should not be controlled in job stress research: Don't throw out the baby with the bath water. *Journal of Organizational Behavior, 21,* 79-95.

Tellegen, A., Watson, D., & Clark, L.A. (1999). On the dimensional and hierarchical structure of affect. *Psychological Science, 10,* 297-303.

Thorensen, C.J., Kaplan, S.A., Barsky, A.P., Warren, C.R., & de Chermont, K. (2003). The affective underpinnings of job perceptions and attitudes: A meta-analytic review and integration. *Psychological Bulletin, 129*, 914-945.

Tsai, W.-C., Chen, C.-C., & Liu, H.-L. (2007). Test of a model linking employee positive moods and task performance. *Journal of Applied Psychology, 92,* 1570-1583.

Wanous, J.P., & Reichers, A.E. (2003). Is remembered change useful? *Research in Organizational Change and Development, 14*, 283-309.

Watson, D., & Clark, L.A. (1984). Negative Affectivity: The disposition to experience aversive emotional states. *Psychological Bulletin, 96,* 465-490.

Watson, D., Clark, L.A., & Tellegen, A. (1988). Development and validation of brief

measures of positive and negative affect: The PANAS scales. *Journal of Personality and Social Psychology, 54,* 1063-1670.

Watson, D., & Tellegen, A. (1985). Toward a consensual structure of mood. *Psychological Bulletin, 98,* 219-235.

Wegge, J., van Dick, R., Fisher, G. K., West, M. A., & Dawson, J. F. (2006). A test of basic assumptions of affective events theory (AET) in call centre work. *British Journal of Management, 17,* 237-254.

Weiss, H. M., & Cropanzano, R. (1996). Affective events theory: A theoretical discussion of the structure, causes and consequences of affective experiences at work. In B.M. Staw & L.L. Cummings (Ed.) *Research in Organizational Behavior. Annual Series of Analytical Essays and Critical Reviews, 18*: 1-74, Greenwich, GT: JAI.

Weiss, H. M., Nicholas, J. P., & Daus, C. S. (1999). An examination of the joint effects of affective experiences and job beliefs on job satisfaction and variations in affective experiences over time. *Organizational Behavior and Human Decision Processes, 78,* 1- 24.

Wright, P.M., George, J.M., Farnsworth, S.R. & McMahan, G.C. (1993). Productivity and extra-role behavior: The effects of goals and incentives on spontaneous helping. *Journal of Applied Psychology, 78,* 374-381.

FIGURE 1

Mediation Argument of Affective Events Theory.

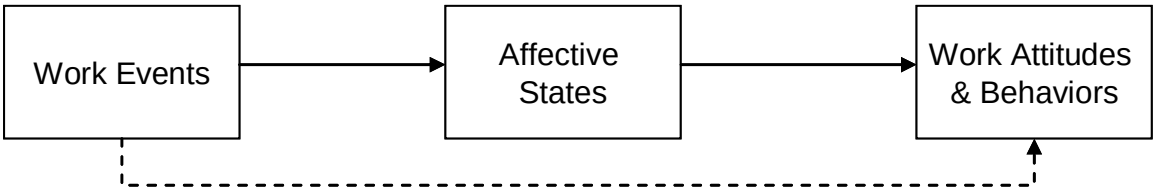


FIGURE 2

Hypotheses.

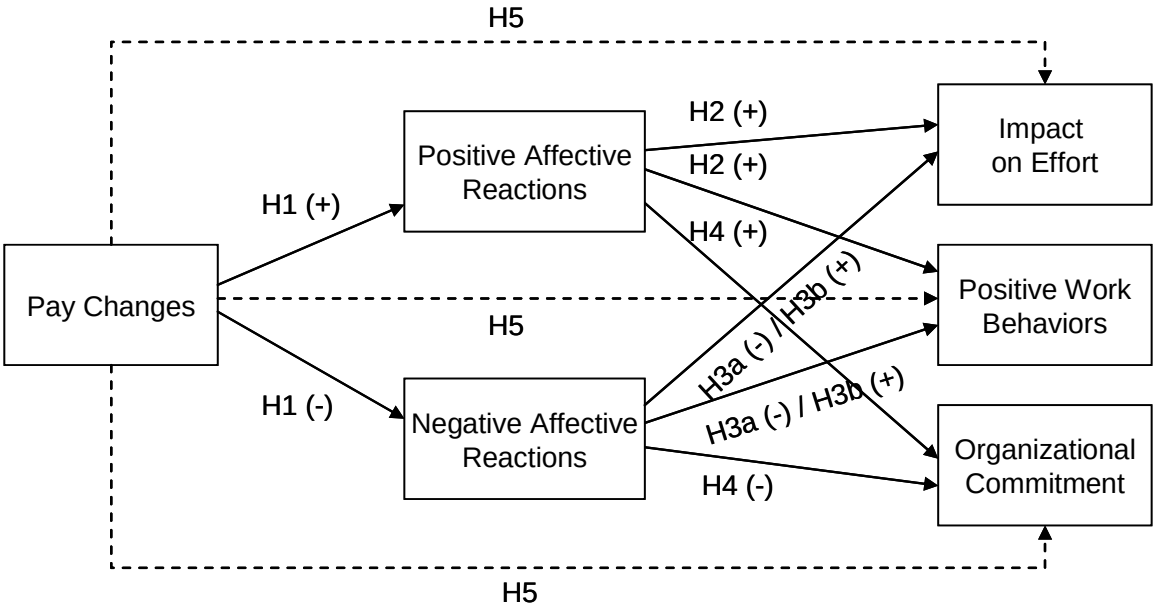
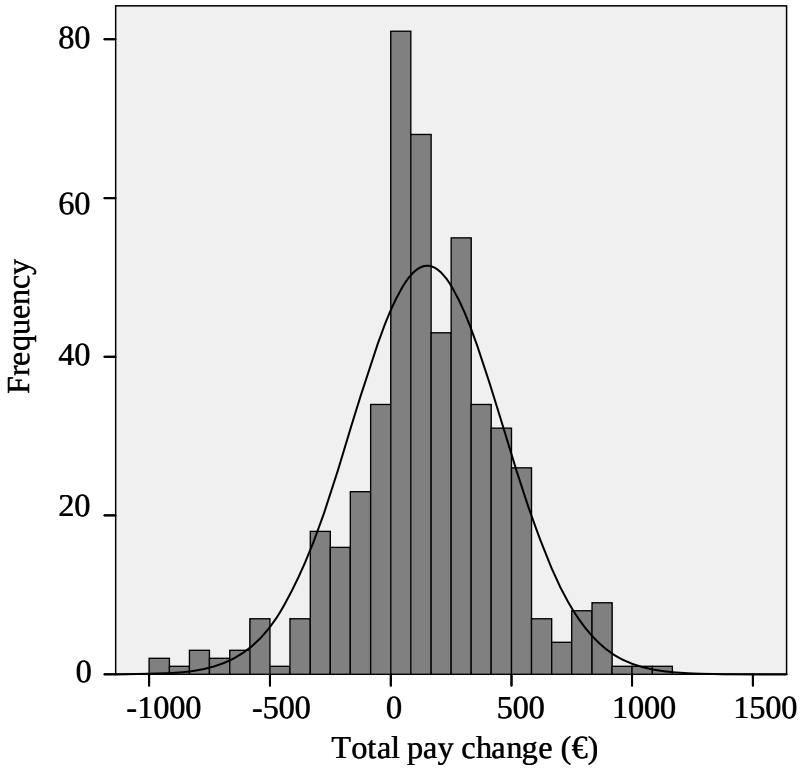


FIGURE 3[a]

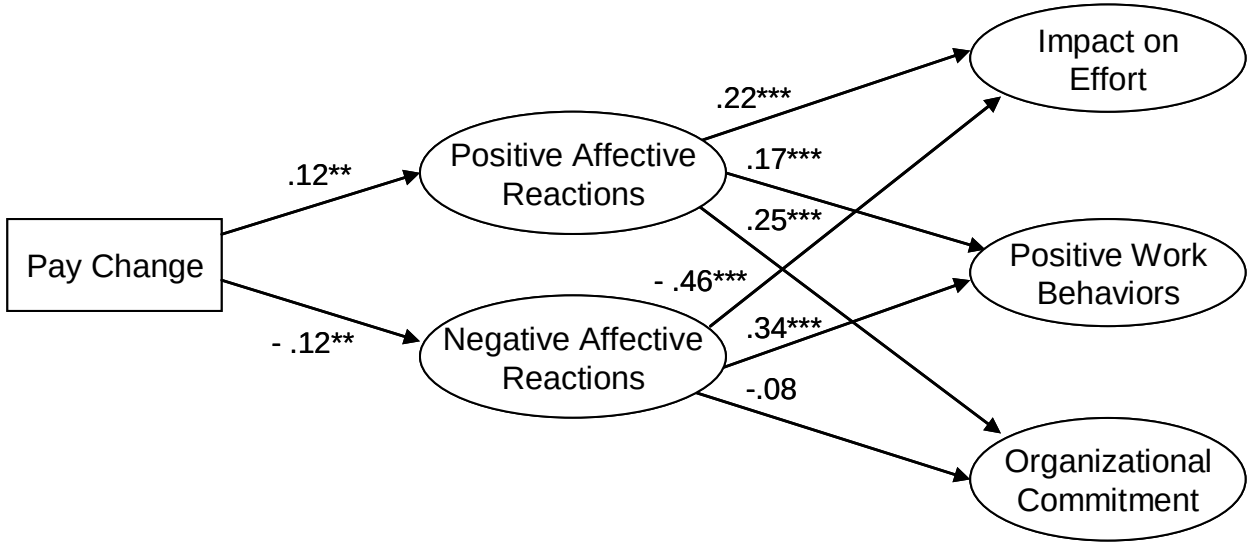
Distribution of Pay Changes at the Studied Universities.



[a] *Note.* Negative pay change means that the person is receiving a pay guarantee, and positive pay change means that the person is receiving a pay increase.

FIGURE 4[a]

Standardized Estimates of the Structural Equation Model.



[a] n = 495. *FML* estimation controlling for organization, tenure, gender, job type and base pay level.
* $p < .05$
** $p < .01$
*** $p < .001$

TABLE 1[a]

Descriptives and Correlations.

	1	2	3	4	5	6	7	8	9	10	11
1. Organization											
2. Gender (0=male, 1=female)	.19***										
3. Tenure	.13**	.02									
4. Job type (0=academic, 1=administrative)	-.11*	.23***	.26***								
5. Monthly base pay before pay reform (euros)	.06	.20***	.37***	-.32***							
6. Pay change (euros)	.03	.01	-.01	-.02	.20***						
7. Positive affective reactions	-.03	.09	.12*	.10*	.08	.14**	(.86)				
8. Negative affective reactions	.02	-.09*	.22***	.02	.09	-.13**	.05	(.90)			
9. Positive work behaviors	.04	.03	.11*	-.18***	.33***	.12*	.19***	.34***	(.70)		
10. Impact on effort	.05	.07	-.12**	.02	-.06	.22***	.19***	-.47***	-.12**		
11. Organizational commitment	.10*	.08	.24***	.11*	.23***	.11*	.28***	-.04	.17***	.22***	(.92)
Mean					2925.0	150.9	2.83	2.77	4.29	3.70	3.20
SD					1035.6	313.9	1.34	1.12	1.13	1.15	1.14

[a] n = 495. *Note*. Cronbach's alphas are reported on the diagonal.
* $p < .05$
** $p < .01$
*** $p < .001$

TABLE 2

Summary of Results.

Hypothesis	**Prediction**	**Outcome**
H1	Pay changes will have an effect on the type of affective reaction employees have to the new pay system such that a positive pay change will elicit a positive affective reaction, whereas a negative pay change will elicit a negative affective reaction.	Supported
H2	Positive affective reactions to the pay system change will be related to higher levels of effort and positive work behaviors.	Supported
H3a	Negative affective reactions to the pay system change will be related to lower levels employee effort and positive work behaviors.	Supported in case of effort
H3b	Negative affective reactions to pay system change will be related to higher levels of employee effort and positive work behaviors.	Supported in case of positive work behaviors
H4	Positive affective reactions will be related to high levels organizational commitment and negative affective reactions will be related to low levels of organizational commitment.	Supported in case of positive affective reactions
H5	The impact of pay changes on effort, positive work behaviors and organizational commitment will be mediated by affective reactions.	Partial mediation supported