

ABSTRACT

This study explores the role of social comparison processes (SCP) in organizations. Unlike most SCP studies, we argue that SCP do not only take place on the individual, but also on the organizational unit level. Given the importance of procedural justice in headquarters-subunit alignment, we posit that organizational subunits engage in SCP with their peers on matters of procedural justice treatment by headquarters. We show that peer unit envy, as a negative consequence of SCP between subunits, negatively influences headquarters-subunit alignment. We further explore whether organizational socialization alleviates this effect by fostering a stronger organizational identification and rendering SCP on the subunit level less important. Contrary to theoretical predictions, however, we reveal socialization to have an aggravating effect, thus stimulating feelings of envy among subunits.

THE ANTIDOTE TO ENVY? – THE ROLE OF SOCIALIZATION IN ALLEVIATING THE NEGATIVE INFLUENCE OF ENVY IN HEADQUARTERS-SUBUNIT ALIGNMENT

INTRODUCTION

“For it is a matter of daily observation that people take the greatest pleasure in that which satisfies their vanity; and vanity cannot be satisfied without comparison.”

Arthur Schopenhauer

The theory of social comparison processes (SCP) has been intensively used to explain employees' behavior in different organizational settings. Scholars studied many organizational and behavioral topics, i.e. performance appraisal, affective workplace behavior and fairness in organizations (Greenberg *et al.*, 2007). Their studies commonly demonstrate that SCP are omnipresent in an organization and influence employees' attitudes towards the organization, leading to positive attitudes in case of favorable SCP outcomes and vice versa. Given the large potential of SCP to explain employees' behavior and attitudes towards the organization, it is surprising that it has still not been applied to the headquarters-subunit (HQS) relationship.

The HQS relationship is primarily concerned with the question for headquarters how to best align its subunits with the firm's overall strategy (Kostova *et al.*, 2016). Following Goodman and Haisley (2007), who deem the concept of SCP to be applicable to the organizational unit level, we posit that SCP play a role in the context of HQS relationships in shaping subunits' attitude towards headquarters. Kim and Mauborgne (1991, 1993) revealed fair process treatment by headquarters to positively influence subunits' attitudes towards headquarters by increasing their willingness to implement headquarters' directives. Ambrose and Kulik (1989) further asserted perceptions of procedural fairness in an organizational setting to be subject to SCP. Following these findings, we posit that SCP on matters of procedural justice treatment by headquarters exist among subunits in an organizational setting and thus influence their relationship with headquarters. Just as positive SCP outcomes on the individual level lead to positive work attitudes, i.e. commitment and trust (Wayne *et al.*, 2002), subunits are likely to be more willing to implement headquarters' directives in case they feel equally treated. In turn, just as negative SCP outcomes infer feelings of envy (Nickerson & Zenger, 2008) and unfavorable consequences, i.e. counterproductive work behavior (Cohen-Charash & Spector, 2001), negative SCP outcomes in terms of differential headquarters' treatment are likely to reduce subunits' willingness to implement headquarters' directives. It is for the above reasons, that we feel it is high time to explore the role of SCP in the context of HQS relationships.

Assuming the destructive effect of envy on the headquarters-subunit relationship, the need for mitigation naturally arises. As envy is an emotion that arises between two parties, the solution might lie in uniting them. Goodman and Haisley (2007) assert socialization processes, the creation of a shared understanding of normative rules, to influence the choice of an individual's referent in social comparisons. “If one works in a closely knit group, that group will be the primary focus of one's socialization” (Goodman & Haisley, 2007, p. 113). We follow this line of reasoning in exploring socialization as a means to prevent feelings of envy by pre-empting the need for social comparison through the creation of a sense of unity among subunits.

The contribution of this paper is threefold. First, we show that SCP on matters of procedural fairness take place on the unit level among organizational subunits. Second, we provide evidence for the destructive effects of negative outcomes of peer unit SCP on the alignment between headquarters and subunits. We find that peer unit envy negatively influences subunits' implementation of headquarters' directives, thus harming their attitude towards headquarters. Third, we demonstrate headquarters who attempt to prevent envy by means of socialization to be ill-equipped. Rather than acting as the antidote to envy, socialization reveals fertilizing effects in this respect.

THEORY AND HYPOTHESES

SCP and envy

Theory on SCP suggests that individuals intuitively compare themselves to similar referents (“peers”) when evaluating how they are treated in specific situations (Festinger, 1954). Similarity with referents is based on a variety of aspects such as e.g. demographics, positions, skills (Kulik & Ambrose, 1992). While naturally taking place in individuals’ everyday lives, the idea of SCP can also be transferred to organizations. Given that employees regard their relationship with their employer as a social exchange relationship, they are likely to engage in SCP at the workplace to evaluate whether they are being exploited in their exchange relationship compared to colleagues in similar positions (Thau *et al.*, 2007). While positive outcomes of SCP lead to satisfaction, negative SCP point to an exploitation and induce feelings of envy (Nickerson & Zenger, 2008).

Envy begins by asking the question “Why not me?” (Epstein, 2003, p.6) and is triggered by SCP (Duffy *et al.*, 2008). According to Ben-Ze’ev (1992), envy is a “negative attitude towards another person’s superiority” and “refers to a situation in which one person wants what another person has” (Cohen-Charash, 2009). Further, envy is an emotional state, in which individuals strive for inequality elimination to be abreast with the referent. In case of perceived inequalities compared to peers, employees show counterproductive work behaviors that harm the organization (Bauer & Spector, 2015). While competitive situations qualify as “breeding grounds for various feelings of ill-will” (Smith, 2000, p.193) and stimulate envy, the key to avoiding it lies in providing an environment that allows for the appreciation of others’ achievements (Duffy *et al.*, 2008), putting less emphasis on SCP.

Scholarly interest in SCP grew steadily, but has still not found its way into the HQS literature. Despite many scholars acknowledging the impact of SCP in the organizational context, they focused on the application of SCP on the individual level and refrained from applying the organizational unit level. Goodman and Haisley (2007) argue that SCP should be analyzed on three different levels of analysis, the individual, group and organizational level. In an organizational setting, different levels of groups exist, i.e. project teams, departments, subsidiaries, business units. Given that SCP among group members has an implication on group-level outcomes (Goodman & Haisley, 2007), we argue that the concept of SCP can be applied to the organizational unit level.

Headquarters constantly face the challenge of achieving maximum alignment with their subunits (Kostova *et al.*, 2016). As companies are limited in their resources, headquarters are forced to efficiently invest them across their subunits, which may lead to unequal treatment. Following Ambrose *et al.* (1991) who ascribe matters of fairness in organizations to be subject of SCP and given that procedural justice fosters HQS alignment (Kim & Mauborgne, 1991, 1993), it is likely that SCP on matters of headquarters’ procedural justice treatment take place among peer subunits.

Thau *et al.* (2007, p. 250) describe individuals who experience negative SCP to be “more likely to exhibit behaviors that harm the organization or its members”. Further, Greenberg *et al.* (2007) assert unfavorable procedures to infer feelings of injustice. In the HQS context, perceived inequalities between peer units in terms of headquarters treatment are likely to lead to envy between them. Bedeian (1995) supports this view in deeming perceived imbalances in resource distribution to inevitably lead to feelings of envy. In addition, Duffy *et al.* (2008) suggested the combative character of organizations to be responsible for the emergence of envy. Subunits are surmised to be envious when they feel unfairly treated compared to their peers. In a HQS setting, we thus postulate subunits to manifest their envy in a negative attitude towards headquarters, thus less willingness to implement headquarters’ directives.

H1: Peer unit envy is negatively related to implementation of headquarters’ directives.

Socialization

Individuals select their referents based on their reference groups, which consists of individuals they (aspire to) belong to. As such, reference groups set normative standards and enable comparison among people (Goodman, 1977). Within an organization, the choice of referent is determined by the availability of information about that referent (Kulik & Ambrose, 1992). Only if the referent is perceived to be relevant

to the focal person, it will be selected for comparison (Goodman & Haisley, 2007). In selecting referents, socialization processes play an important role in purporting with whom an individual identifies and which group is chosen as a reference.

Socialization is the process by which an individual adopts an organization's character (Chatman, 1991) and shares its values, goals and perspectives (Ashforth & Mael, 1989). Applying socialization measures fosters individuals' organizational assimilation and inspires them to pursue organizational interests (Chatman, 1991).

Duffy *et al.* (2008) deemed organizations to possess a toxic climate for envy when competitiveness dominates the organizational atmosphere and lets overall organizational goals fade into the background. Transferring this thought to the competitive setting between subunits, triggering envy by invoking peer unit comparisons, it seems intuitive to assume that salvation may lie in fostering a common strive for the organization's goals, distracting from lower level sensitivities. Following Goodman and Haisley (2007), the reference group of an individual should thus lie on the organizational level, so that referents within an organization are deemed inappropriate and SCP within an organization are rendered obsolete. As the level of socialization is a solid indicator for organizational identification (Özdemir & Ergun, 2015), we propose socialization to serve as a catalyst for subunits' identification on the organizational level, ultimately making the overall organization's interest the interest of the subunit.

Social identity theory offers considerable support for this line of reasoning. An individual's identification has important implications for SCP through determining the reference group for comparison (Goodman & Haisley, 2007). Social identities are understood as categorizations into a social unit (Brewer, 1991). In an organizational setting, subunits are thus expected to engage in SCP on their level of social identification with their respective peer units on the same hierarchical level. Just as individuals' identification can take place on an individual or group level (Brewer & Gardner, 1996), different levels of unit identification are likely to exist in organizations. Continuing this line of thought, an organization offers different levels of identification, from the team-level, over subunit, to the organizational level, the latter implying a strong identification with the entire organization.

Van Knippenberg (2000) postulated organizational level identification to entail "a sense of oneness" with the organization, thereby inducing the adoption of organizational goals and perspectives. Singh (1994) supports this thought in revealing that managers higher up the hierarchy perceive less inequity than supervisors and workers who resemble lower hierarchical levels. A higher level unit identification thus automatically implies a stronger identification with the entire organization rather than with lower level units.

Following Foss and Weber (2016), this idea is further supported by the concept of cognitive frames, which commonly act as heuristics in decision-making and information processing. Organizational hierarchical levels are understood as cognitive frames which determine how information is interpreted on a specific unit level (Foss & Weber, 2016). Consequently, units adhering to different hierarchical cognitive frames interpret information differently. The higher the level of hierarchical identification, the more the cognitive frames purport information processing and decision making in the best interest of the entire organization. In line with this, Jasso (1980) argues that evaluations of equality are largely influenced by contextual factors; that is when engaging in SCP on the organizational level, the organizational context can be considered the major source of influence rather than concerns in lower hierarchical levels.

Consequently, when accounting for socialization in the proposed negative relationship between envy and implementation, socialization is expected to have a weakening effect through fostering organizational identification and the sharing of perspectives, goals and cognitive frames. Socialization thus augments subunits' reference groups for comparison, rendering individual units' sensitivities and the need for SCP on the subunit level less important. In encouraging socialization, headquarters can hence fend off negative effects of envy on subunits' willingness to implement their directives.

H2: Socialization has a positive moderation effect on the negative relationship between peer unit envy and the implementation of headquarters' directives.

METHODOLOGY

Our empirical context was a large European insurance corporation with six subsidiaries in Europe. We collected data in 134 subunits and their respective headquarters counterparts through two parallel online surveys; one for headquarters and one for subsidiaries (response rate 83.6%).

Variables and Measurement

Dependent variable. For the dependent variable, we took the measure of *implementation* as developed by Kostova and Roth (2002).

Independent variables. We measured *peer unit envy* as a negative outcome of comparisons among subunits with respect to procedural justice treatment by headquarters. Procedural justice was rated based on the traditional scale published by Kim and Mauborgne (1995) ($\alpha=0.84$). We defined *peer unit envy* as the negative difference in procedural justice measures between them. The reason for this approach is as follows: In case of subunits perceiving less procedural justice compared to referent units, they are likely to feel unfairly treated and develop feelings of envy. Hence in order to extract these outcomes of comparisons of perceived procedural justice vis-à-vis headquarters, for each subunit we calculated the distance to the maximum of peer subunits. Large numbers represent a large perceived distance from the maximum of procedural justice present in the two referent groups, or in other words, *envy*.

We measured *socialization* as the moderating variable with a four item construct retrieving information on headquarters mentorship, corporate strategy trainings as well as visits and stays at headquarters.

Control variables. We controlled for other potential subjects of comparison in the HQS context, which are likely to be other means of control as they shape the HQS relationship. Following Nell and Ambos (2013), we chose *output control* ($\alpha=0.50$), *centralization* ($\alpha=0.98$) and *formalization* ($\alpha=0.85$). Further, we controlled for subunit characteristics, including subunit dummies as well as variables for *unit size* and *unit age*.

RESULTS

To test our hypotheses, we used OLS regression with robust standard errors. We checked our data for normality, linearity and equality of variance. Correlations levels were at low levels with no abnormalities. Our control model showed no significant effects for neither the control variables nor the moderator. Our first hypothesis, stating the negative effect of envy on implementation, was confirmed at $p < 0.001$ with an adjusted R-squared of 0.42. Our second hypothesis, which proposed the main effects to be weaker with higher levels of socialization, was not supported; rather we found a strongly significant negative moderation effect at $p < 0.01$ with an adjusted R-squared of 0.46.

DISCUSSION

Results show strong support for hypothesis 1, confirming that envy has a negative impact on implementation. Perceptions of imbalances in procedural justice treatment between subunits thus negatively impact the HQS alignment. Both feelings of envy as well as an equal subunit treatment by headquarters impose significant costs to the firm; the first due to a reduced willingness of subunits to implement headquarters' directives, the latter due to a likely inefficient resource allocation. Headquarters thus constantly face a balancing act to decide how and where to invest their resources – minimizing envy or maximizing efficiency. Awareness of this challenge highlights the need for headquarters' to always be conscious of both positive as well as negative implications of their actions.

The confirmation of our first hypothesis further ratifies that SCP not only take place on the individual level, but also on the organizational unit level. With this revelation we enlarge SCP's current area of application and offer the concept as a new lens to explain organizational phenomena. Contrary to previous research that mostly takes on an isolated view on the HQS relationship, we prove that the multiplicity of relationships between headquarters and their subunits in an organization is not to be neglected as it stimulates peer subunit comparison and thereby induces negative implications for HQS alignment.

Second, and most surprisingly, socialization is revealed to have an aggravating rather than alleviating effect on the negative relationship between envy and implementation. This is unexpected as it strongly rejects all predictions made by social identity theory. Despite strong theoretical indications, socialization proves to be bane rather than boon with respect to peer subunit comparisons. The eminent question arises: Why is socialization apparently not the universal remedy to fix a variety of motivational problems in HQS relationships as deemed by Gomez and Sanchez (2005)?

SCP theory argues that relative standards are a prerequisite for comparisons and a correct interpretation of any related information (Corcoran *et al.*, 2011). As organizations purport the norm for intra-organizational actions, any deviation from the norm leads to negative SCP outcomes and further stimulates the engagement in comparisons. With socialization leading to employees' stronger adoption of organizational norms and a formation of expectations towards headquarters, it could also be considered a fertilizer for more SCP between peer subunits and thus as a risk for HQS alignment in case of negative peer comparison outcomes. In this case, socialization presents itself as a nutrient medium for SCP and the destructive effects of envy as a consequence.

Second, the relationship between employees and the organization is considered to be a social exchange relationship, where both parties naturally fear to be exploited (Thau *et al.*, 2007). In cases of high socialization, employees develop stronger ties with the organization and may thus assign more weight to their "exchange contract". With respect to SCP, negative outcomes and envy might then be even stronger and further decrease the willingness of subunits to implement headquarters' directives. Thus, with more socialization the demands for a fair exchange relationship with the organization may rise.

Third, the character of socialization measures might offer an explanation for this counterintuitive finding. Most research focused on the contents of socialization, rather than the level of socialization (Saks & Ashforth, 1997). Following Anderson and Thomas (1996), however, it would be wise to also pay attention to the directionality of socialization in terms of organizational levels rather than only its contents. Haueter *et al.* (2003) further point out that employee's socialization should not only be aimed at the organizational level, but also at their particular work group and job. In HQS literature, socialization has been primarily understood to be aimed at the organization level, designed to familiarize with the entire organization. Socialization aimed at the unit level, either at one specific unit or horizontally at peer units, has to our knowledge not been discussed within the context of HQS relationships. Hence, the focus of socialization, in this study targeting the organizational level, can be another reason for the aggravating effect of socialization. Leaving out horizontal socialization with peer subunits, socialization leads to a higher adoption of organizational level goals and values, but ignores the importance of (peer) subunit identification. Despite supporting a sense of unity with the organization as a whole, no sense of unity with peer subunits is fostered. This effect is then likely to overshadow the positive effects of organizational level socialization, thus aggravating the effects of envy rather than alleviating them.

CONCLUSION

With this research study we add to current HQS literature by showing that differential process treatments by headquarters towards subunits, inferring feelings of envy, impedes subunits' implementation and thus HQS alignment. Further, we promote SCP as a theoretical backbone to explain organizational problems, taking the concept from the individual to the organizational unit level. We show that not only vertical relationships between headquarters and subunits, but also horizontal relationships among subunits should be considered in managing the HQS relationship. Additionally, we uncover socialization's dark side in showing that it does not always have a positive effect on the organization and should be applied with care. Finally, we challenge the, up to this point, one-dimensional use of socialization in the HQS literature in focusing on organizational level socialization, asking for the exploration of horizontally aimed socialization measures.

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**Note: All graphs and statistics as well as more information on the empirical context will be provided by the authors upon request.*

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