

Managers' Roles in Performance-Based Reward Enhancing Employees' Feelings of Procedural Justice

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Abstract

This study assesses the correlation between managers' roles in performance based reward and procedural justice at disaster agencies in Malaysia. The outcomes of SmartPLS (PLS-SEM) path model analysis demonstrated that the capability of management to correctly apply communication, involvement and performance assessment in performance-based reward could lead to higher employees' feelings of procedural justice in the organizational sample. Further, this study offers discussion, implications, and conclusion.

Keywords: Managers' roles, performance based reward, procedural justice, SmartPLS

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1. INTRODUCTION

Global competition and regional cooperation have been an important prime mover to encourage many successful small-medium organizations to become global and international organizations. This change is done to maintain and enhance organizational competitiveness and productivity in the borderless world (Baporikar, 2016; Marthinsen, 2017). In line with the organizational changes, employers have changed their reward management approaches from a traditional job-based reward to performance-based reward in order to achieve their vision and missions (Anuar et al., 2014; Berber et al., 2017; Salim et al., 2015). Performance-based reward is a kind of strategic compensation approach whereby it is created by employers to

bestow extra rewards besides fixed-salary scale according to employee performance (e.g. merit, knowledge, skills, competency and/or productivity), but not based on their job structures (Anuar et al., 2015; Martocchio, 2015; Newman et al., 2016).

Many extant studies advocate that managers' roles in performance-based reward has been a remarkable phenomenon in human resource management, but its effect on employees' feelings of procedural justice has not been adequately discussed in the workplace reward research literature (Najwa et al., 2016; Rizal et al., 2014). According to many scholars, this situation is due to the several reasons: first, most previous studies have much explained about the traditional and contemporary management roles in planning and administering performance-based reward (Ismail et al., 2011; Newman et al., 2016). Second, many previous studies have employed a simple correlation method to assess employee perceptions about particular types of performance-based reward (e.g., variable pay, merit pay and performance bonus), and measure the level of relationship between performance-based reward and general employee attitudes and behaviour (e.g., satisfaction with job, motivation to perform job motivation and intention to leave) (Anuar et al., 2014; Malik, 2013; Ismail and Razak, 2016).

Third, many previous studies have used a positivism paradigm to develop different types of reward models and this approach has little discussed about the role of management in planning and administering performance-based reward, and not thoroughly assessed their impacts on specific types of organizational justice theory, like procedural justice (Akbas et al., 2016; Pignata et al., 2016). Consequently, the previous researches have only delivered general outcomes and this may not offer ample help to be treated as important strategies by practitioners in enhancing their knowledge about the difficulty of performance-based reward construct and initiate improvement efforts to improve the effectiveness of performance-based reward in dynamic organizations. Consequently, this condition encourages the researchers to fill in the gap of literature by measuring the influence of managers' roles in performance-based reward on employees' feelings of procedural justice.

The present study focuses on three major objectives: first, to assess the connection between communication and procedural justice. Second, to assess the connection between involvement and procedural justice. Finally, to assess the connection between performance assessment and procedural justice. The structure of this paper discussed four important topics: literature review, methodology, results and discussion, and conclusion.

2. LITERATURE REVIEW

Performance-based reward has two important categories: individual performance based reward and group performance based reward (Martocchio, 2015; Newman et al., 2016; Brehm, et al., 2017). Individual performance-based reward is broadly defined as an employer provides extra rewards besides basic salaries based on individual performance. For example, this reward system is

normally paid to high performers in the forms of merit pays, one off bonuses and/or incentives (Auh and Menguc, 2013; Day et al., 2014; Osterloh, 2014). While, group performance-based reward is generally defined as an employer provides variable pays besides basic salaries to all employees who work at high-performing business units (e.g., subsidiary companies). For example, this reward system is normally paid to them in the forms of profit sharing and/or gainsharing plans (De Spiegelaere, et al., 2016). These types of performance-based reward are equally important and can be used to attract, remain and motivate competent employees to place their organizations as a market winner organization in an era of globalization (Martin et al., 2016).

A review of the recent literature pertaining to creative reward program highlights that a well-designed performance-based reward may not be able to achieve their goals if management has not adequate competencies to appropriately administer the reward systems (Anuar et al., 2015; Newman et al., 2016). Many scholars like Wainaina et al. (2014), Salim et al. (2015), and Newman et al. (2016) state that competent management should have capabilities to carry out three major roles: communication, involvement and performance assessment (Salim et al., 2015; Wainaina et al., 2014). In the administration of performance-based reward, communication is commonly implemented by two ways: bottom-top and top-bottom. In a bottom-top communication, employees are allowed by management to deliver information about the performance-based reward to the organizations. Conversely, in a top-bottom communication, management takes initiatives to deliver the facts about the performance-based reward to employees. Delivery of the information through such communication systems may enhance employees' understanding of the value of reward and decrease their misjudgments about reward policies and procedures in organizations (Henderson, 2009; Martocchio, 2015).

Meanwhile, involvement refers to employers allow employees to participate in the design and administration of reward systems. Involvement in the performance based reward designs is often done by employees with giving ideas and/or suggestions to set up the objectives, allocate resources, and determine procedures of reward systems. Besides, involvement in reward administration is usually done by employees with sharing power in making decisions about reward allocations. Implementation of this involvement system may enhance employees' intrinsic motivation, sense of ownership, satisfaction, and innovation, as well as lower grievances and dispute between employers and employees in organizations (Anuar et al., 2014; Henderson, 2009; Salim et al., 2015). Hence, performance assessment refers to a formal appraisal method established by an organization to appraise employee traits, behavior and/or results. This assessment system is often used by management to yearly examine employee achievements, allocate ratings based on employee achievements and use these performance ratings as the basis to decide the type, level and/or amount of reward for employees who work at different levels and categories in organizations (Deepa et al., 2014; Salim et al., 2015). If this performance assessment is properly practice this may identify employee problems, correct employee problems, and assist employees in achieving employees' career goals (Martocchio, 2015; Newman et al., 2016).

Interestingly, a thorough review of the performance-based reward literature published in the 21st century reveals that communication, involvement and performance assessment are important determinants of employee outcomes, especially procedural justice (Lau, 2014; Salim et al., 2015; Wainaina et al., 2014). In the administration of reward systems, procedural justice is normally interpreted as perceived fairness about the process and systems of distributing rewards to determine employees' rewards. For example, if employees perceived that the procedures (e.g., rules and regulations) that are used to determine their rewards are consistent, accurate, ethical and lack of bias, this feeling may lead to higher spirit of procedural justice in organizations (Tyler and Blader, 2003; McShane et al., 2015).

Within a performance-based reward model, numerous scholars believe that communication, involvement, performance assessment and procedural justice have different meanings, but are highly interrelated constructs. For example, the competency of managers to appropriately implement communication openness, allow employees to involve in the design and administration of pay systems, and use performance assessments in determining reward systems may lead to greater employees' feelings of procedural justice in organizations (Ismail et al., 2014; Newman et al., 2016).

2.1. Relationship Between Managers' Role in Performance-based Reward and Employees' Feelings of Procedural Justice

The relationship between managers' roles in performance-based reward and employees' feelings of procedural justice is in line with the main idea of leadership theory. For example, role theory explains that allocation of rewards and benefits is an important sign of the high quality relationship between leaders and followers and this practice may affect followers' positive behavior (Graen, 1976). While, leader-member exchange theory describe that in-kind exchanges (e.g., morale and/or material) are a symbol of the high quality relationship between leaders and followers and this practice may invoke followers' positive actions (Graen and Uhl-Bien, 1995). In the context of performance-based reward, the main idea of the quality relationship between leaders and followers is often translated as communication, involvement and performance assessment. The notion of these theories has obtained solid support from the performance-based reward research literature.

Some further studies were performed utilizing a direct effects model to investigate performance-based reward in different organizational settings, such as perceptions of 139 workers at retail and service industries in United States (Tyler and Blader, 2003), 99 workers at public higher education institution in Peninsular Malaysia (Azman et al. 2016), 2247 government staff at Netherland (Lira et al., 2016), 171 participants from private tertiary education institution in Malaysia (McShane et al., 2015), and 212 bank employees in the Midwest region of the United States (Walumbwa et al., 2008). Outcomes of these surveys found that the capability of administrators to openly communicate the information about performance-based reward (e.g., explanations, sharing information and negotiation), actively encourage employees to involve in performance based reward (e.g., suggestion and decision making) and appropriately use performance appraisal in

determining pay systems based on employee performance had enhanced procedural justice in the respective organizations (McShane et al., 2015; Tyler and Blader, 2003; Walumbwa et al., 2008).

2.2. Conceptual Framework and Research Hypothesis

Based on the argument and review of literature above, it is aware that the managers' role in administrating performance-based reward has significant influence on employees' feeling of procedural justice. Thus, it was hypothesized that:

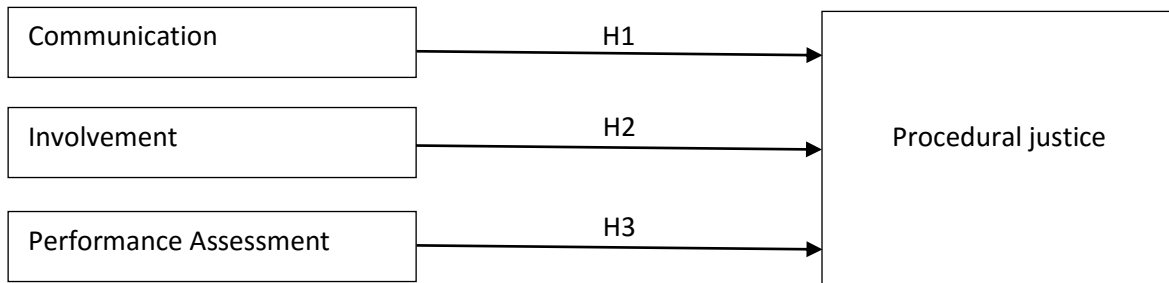


Figure 1: Conceptual Framework

H1: Communication is positively related to procedural justice

H2: Involvement is positively related to procedural justice

H3: Performance assessment is positively related to procedural justice

3. METHODOLOGY

A cross-sectional research design is employed because it allows the researchers to integrate the performance based reward research literature, and the actual survey as the main procedure of collecting data for this study. This method may help the researchers to gather accurate, less bias and high-quality data (Sekaran and Bougie, 2015).

This study was conducted at disaster agencies in Peninsular Malaysia. As a public agency, this organization has adopted Malaysian Remuneration System which was first introduced in 2002 through Service Circular No. 4/2002 (Jabatan Perkhidmatan Awam, 2002). Next, the amended version of remuneration system was launched in the early of 2016 (Jabatan Perkhidmatan Awam, 2013, 2016). In this remuneration system, the performance based reward is allocated to 8% of employees who have met the criterion of excellent employees. In order to achieve the reward system objective, the stakeholder has held several training programs to enable managers to appropriately implementing three important techniques: communication, involvement and performance assessment. For example,

management employees are appropriately trained to use communication openness in delivering the information about reward system to employees (e.g., explanation about reward management circulars), encourage employee to involve in making reward decisions (e.g., discussion about annual work targets), and implement performance appraisal in allocating performance ratings based on employee performance (e.g., yearly performance evaluation report). Although the implementation of the performance-based reward is very important in enhancing employee productivity, its effectiveness has not been thoroughly discussed because of the paucity of empirical evidence published in Malaysia. Therefore, research on this issue is imperative.

At the initial stage of data collection, the survey questionnaire was developed based on the performance-based reward literature. Further, a back-translation method was used to translate the content of survey questionnaire into Malay and English languages in order to enhance the validity and reliability of the study outcomes (Sekaran and Bougie, 2015).

The survey questionnaire comprises of four important parts: firstly, communication had 4 items adapted from communication-related reward management literature (Anuar et al., 2014; Newman et al., 2016; Singh, 2009). The facets used to measure the construct were delivering the information about salary level, pay increment, and achievement criteria. Secondly, involvement had 4 items adapted from participation related reward management literature (Brown et al., 2010; Ismail et al., 2014; McShane et al., 2015; Newman et al., 2016). The facets used to measure the construct were allowing employees to ask questions and express opinions about the performance-based reward. Thirdly, performance assessment had 3 items adapted from performance appraisal related reward management literature (Ismail et al., 2014; Newman et al., 2016). The facets used to measure the construct were using the performance assessment scores to determine promotion, training, and recognitions.

Fourth, procedural justice had 4 items adopted from procedural justice related reward management (Folger and Konovsky, 1989; Moorman et al., 1998). The dimensions used to measure the construct were allowing employees to appeal, using consistent criteria and receiving support from supervisors. All these items were assessed using a 7-item scale ranging from “strongly disagree/dissatisfied” (1) to “strongly agree/satisfied” (7). Respondent characteristics were used as controlling variables because this study focused on employee attitudes.

A purposive sampling technique was utilized to collect 159 survey questionnaires from employees of the studied organizations. This sampling technique was used because the list of registered employees was not given to the researchers and this condition did not allow the researchers to randomly choose respondents for this study. The participants gave their consent prior to answering the survey questionnaires, and it was done on a voluntary basis.

Table 1. Respondent Characteristics

Respondent Profile	Sub-Profile	Percent
Gender	Male	87.4
	Female	12.6
Age	Less than 25 years	10.7
	25 to 34 years	39.0
	35 to 34 years	27.7
	45 to 54 years	16.4
	55 years and above	6.3
Education	LCE/SRP	3.1
	MCE/SPM	77.4
	HSC/STP	8.8
	Diploma	6.9
	Degree	3.8
Position	Management & professional group	14.5
	Supervisory group	8.2
	Technical staff	3.8
	Clerical and supporting staff	71.7
	Other	1.9
Length of Service	Less than 5 years	17.6
	5 to 14 years	32.1
	15 to 24 years	22.0
	25 years and above	28.3
Gross Monthly Income	Less than RM1000	4.4
	RM1000 to RM2499	35.2
	RM2500 to RM3999	54.1
	RM4000 to RM5499	4.4
	RM5500 to RM6999	1.9

Source: Data Generated

The SmartPLS was employed to analyse the survey questionnaire data because it could deliver latent variable scores, avoid small sample size problems, estimate every complex model with many latent and manifest variables, hassle stringent assumptions about the distribution of variables and error terms, and handle both reflective and formative measurement models (Hair et al., 2017). Data for this study were analysed using the following steps: first, the validity and reliability of instrument were determined using a confirmatory factor analysis. Second, the structural model was assessed by examining the path coefficients using standardized betas (β) and t statistics (the significant level at $t > 1.96$). The value of R^2 is used as an indicator of the overall predictive strength of the model based on the criteria: 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Hair et al., 2017; Henseler et al., 2009). Four, the value of f^2 was used as a measure to determine the effect size of predicting variable in the model (i.e., 0.02 (weak), 0.15 (medium) and 0.35 (large) (Hair, Hult, Ringle and Sarstedt, 2017). Finally, the value of Q^2 was employed as a criterion to measure the model's predictive relevance according to the rules: 0.02 (weak), 0.15 (medium) and 0.35 (large) (Hair et al., 2017).

4. RESULT AND DISCUSSION

4.1. Respondent Characteristics

Table 1 displays that the majority respondent characteristics were males (87.4%), aged between 25 to 34 years old (39.0%), MCE/SPM holders (77.4%), clerical and supporting staff (71.7%), length of service between 5 and 14 years (32.1%), and gross monthly incomes from RM2500 to RM3999 (54.1%).

4.2. Model Measurement

In terms of validity and reliability of the instrument, the values of average variance extracted (AVE) for communication (0.592), involvement (0.687), performance assessment (0.576) and procedural justice (0.597) were greater than 0.5, indicating that these constructs met the acceptable standard of convergent validity (Fornell and Larcker, 1981). Besides,, the values of AVE square root in diagonal for communication (0.769), involvement (0.829), performance assessment (0.759) and procedural justice (0.773) were greater than the squared correlation with other constructs in off-diagonal, showing that these constructs met the acceptable standard of discriminant validity (Hair et al., 2017; Henseler et al., 2009).

Factor loadings for the items that represent communication (0.727 to 0.804), involvement (0.742 to 0.796), performance assessment (0.680 to 0.825) and procedural justice (0.783 to 0.862) were greater than other items in the different constructs. These loadings stronger on their own constructs in the model, and greater than 0.70 were considered adequate (Hair et al., 2017). In sum, the measurement model has met the validity criteria. Further, the values of composite reliability for communication (0.770), involvement (0.776), performance assessment (0.753) and procedural justice (0.774) were greater than 0.7, indicating that the instrument used in this study had high internal consistency (Hair Jr. et al., 2017)

The mean values for communication, involvement, performance assessment and procedural justice were from 4.85 to 5.18 showing that the levels of all constructs extending from high (4) to the highest level (7). Meanwhile, the values of variance inflation factor for the connection between the independent variable (i.e., communication, involvement and performance assessment) and the dependent variable (i.e., procedural justice) were from 1.318 to 1.417 and these values less than 5.0, suggesting that the data were not influenced by serious collinearity problem (Hair et al., 2017). In overall, the confirmatory factor analysis result further confirms that the instrument has met the acceptable standards of validity and reliability analyses.

Table 2. Results of Testing the Direct Effects Model

Relationship between Managers' Roles in Performance-based Reward and Procedural Justice	Beta	T-Statistics	f ²	R ²	Q ²
H1: Relationship between communication and procedural justice	0.243	2.984	0.068	0.350	0.196
H2: Relationship between participation and procedural justice	0.179	2.498	0.035		
H3: Relationship between performance assessment and procedural justice	0.326	4.102	0.124		

Note: Significant at * t > 1.96

4.3. Outcome of testing Hypothesis 1, 2 and 3

Table 2 displays that the presence of communication, involvement, and performance assessment in the analysis had contributed 38 percent in the variance of procedural justice. This outcome shows that it provides moderate support for the model. Further, the results of testing the research hypotheses displayed three important findings: first, communication was significantly related to procedural justice (B=0.243; t=2.984), therefore H1 was supported. Second, involvement was significantly related to procedural justice (B=0.179; t=2.498), therefore H2 was supported. Third, performance assessment was significantly related to procedural justice (B=0.326; t=4.102), therefore H3 was supported. This result confirmed that communication, involvement and performance assessment are important determinants of procedural justice. With respect to effect size, this study showed that the f values for communication (0.068), participation (0.035) and performance assessment (0.124) were from 0.02 to 0.15 (Hair *et al.*, 2017), signifying that these constructs provide the medium effect. With respect to predictive relevant, this study showed that the value of Q² for procedural justice was 0.196, demonstrating that it was greater than zero for the reflective endogenous latent variable. This outcome has predictive relevance (Hair *et al.*, 2017).

The findings of this study show that communication, involvement and performance assessment are important determinants of procedural justice. In the context of this study, management has taken proactive actions to plan, maintain, and monitor performance based reward according to the broad guidelines and procedures set up by their stakeholders. The majority participants observe that the levels of communication, involvement, performance assessment and procedural justice are high. This situation indicates that the capability of management to correctly apply communication, involvement and performance assessment in executing performance-based reward may lead to higher employees' feelings of procedural justice in the organizations.

5. CONCLUSION

The study verified a conceptual framework that was developed based on the performance-based reward research literature. The instrument used in this research met the adequate standard of validity and reliability analyses. The outcomes of testing the research hypotheses displayed that communication, involvement, and performance assessment were significantly correlated with procedural justice, therefore H1, H2, and H3 were supported. These findings confirm that communication, involvement and performance assessment act as important determinants of employees' feelings of procedural justice in the organizational sample. This result also has supported and broadened studies mostly published in Western countries. Therefore, current research and practice within compensation management model need to incorporate communication, involvement and performance assessment as crucial elements of the performance-based reward domain. The findings of this study further suggest that the capability of management to appropriately implement communication, involvement and performance assessment may strongly enhance positive attitudinal and behavioural outcomes (e.g., satisfaction, commitment, organizational citizenship behaviour and innovation). Thus, these positive outcomes may lead to organizations to become an employer of choice in an era of globalization.

5.1. Study Implications

This study provides three major implications: theoretical contribution, the robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study are consistent with the notion of role theory (Graen, 1976) and leader-member exchange theory (Graen and Uhl-Bien, 1995), which explain that the readiness of organization to correctly manage performance-based reward has been an important determinant of procedural justice. This finding also has supported and extended studies by (McShane et al., 2015; Tyler and Blader, 2008; Walumbwa et al. 2008). With respect to the robustness of research methodology, the survey questionnaire data used in this research have satisfactorily met the requirements of validity and reliability analyses. This condition could lead to the production of correct and consistent outcomes.

Concerning on practical contribution, the outcomes of this research may be used as strategies for management to enhance the administration of performance-based reward in organizations. The objective may be achieved if management gives more focus on the succeeding aspects: firstly, performance-based reward training programs should be planned and implemented to enhance employees' understanding of the goals, policies, and procedures of the reward system. This understanding may decrease employees' misjudgements and increase their trust to the reward systems. Second, executive development programs should be designed according to the present organizational strategy and goals. For example, the training programs should emphasize on conceptual and human skills and these skills should be taught using case study and team building methods. The ability of management to master these skills may help them to design innovative reward systems that are

consistent with the diversity of employees' needs and complaints. Third, type, level and/or amount of incentive should be revisited according to the present job demands and challenges. Improvements in this aspect will strongly upgrade high performers' satisfaction and this may retain and motivate them to continuously improve service quality.

Thirdly, recruitment and selection policies for hiring critical positions should consider employees who have good academic qualifications, competencies, proactive personalities and excellent track records. These potential employees may play important roles as mentors, coaches, and counsellors to assist junior managers and supervisors, as well as supporting employees in meeting their organizations' key performance indicators. Finally, humanistic support should be encouraged between managers and followers, and between co-workers in order to create conducive working environments and this may help employees to enhance their career goals. If these recommendations are given more consideration, this may motivate employees to appreciate and support the performance-based reward goals.

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