



PERFORMANCE-BASED REWARD ADMINISTRATION ENHANCING EMPLOYEES' FEELINGS OF INTERACTIONAL JUSTICE

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Abstract:

The transformation in international business landscape has changed organizational management especially reward administration. This is done in order to maintain the organization's competitiveness in global market place. In the field of reward administration, an emerging trend can be observed whereby most organizations are moving toward the application of psychological elements in administering organizational reward system. The ultimate objective of this study is to investigate the association between performance-based reward administration and interactional justice. The proposed model was empirically tested using a sample of 113 employees from fire and rescue agency in Peninsular Malaysia. This study found an evidence that performance-based reward administration (i.e., communication, participation and performance appraisal) is positively and significantly associated with interactional justice. This findings proves that the ability of administrators to appropriately implement communication openness, inspire participative decision-making and organize fairness performance appraisal in administering performance-based reward have significantly evoked the feeling of interactional justice when employees perceived that they are being fairly treated in the reward system.

Key words: *Communication, job satisfaction, participation, performance appraisal*

1. Introduction

In organizations, reward is an important issue that has to be effectively managed by the administrators, especially human resource managers. Reward is a strategic human resource management policy that aims to recognize the contributions of employees to the organization as a part of employment relationship contract (Martocchio, 2014; Milkovich et al., 2014). In the early stages of organizational development, most employers use job-based elements such as tenure, length of service and seniority to determine their employees' reward (Florin et al., 2010; Martocchio, 2014; Milkovich et al., 2014). Several studies on reward management

found that job-based element in determining employees' reward is able to attract, retain and motivate good employees (Martocchio, 2014; Milkovich et al., 2014; Ismail et al., 2015). However, it only affects small and medium sized organizations, those that operate based on domestic market, have less competition and in stable business environment (Henderson, 2006; Ismail et al., 2015).

Transformation in business environment and competition in global market had forced the organizations to change their methods of reward management. These changes have shifted the organizational reward management from job-based method to performance-based method in determining employees' reward according to employees' skills, knowledge, competencies and/or productivity shown by the employees while performing their jobs (Chang & Hahn, 2006; Ismail & Zakaria, 2009; Milkovich et al., 2014; Ismail et al., 2015). Extant studies about organizational reward administration show that there are two major approaches of performance-based reward: individual performance approach (e.g., merit pay, lump sum bonus, promotion based incentives and variable pay) and group performance approach (e.g., team based pay and gainsharing) (Ismail & Zakaria, 2009; Martocchio, 2014; Milkovich et al., 2014). Interestingly, both of these approaches which are seemingly different use the same principle in allocating reward to employees based on equity principle (Milkovich et al., 2014).

The allocation of reward to the employees based on their actual performance is very important in order to bridge the gap between the wages of workers, to meet the basic needs of competent employees and to improve the quality of life, well-being and their status in society (Martocchio, 2014; Okoto, 2015). This situation is able to attract, retain and motivate good employees to always support the ultimate goals of workplace reward administration in terms of efficiency, fairness, compliance with laws and regulations, and ethics (Milkovich et al., 2014; Ismail et al., 2014). Further, it may lead to the sustaining and achieving of the organization and human resource management department's strategies and goals (Noe et al., 2014; Martocchio, 2014).

A review on the latest literature pertaining to successful organization shows that effective performance-based reward has three salient dimensions: communication, participation and performance appraisal (Anuar et al., 2014; Brown et al., 2010; McCausland et al., 2005). In this reward system, vertical and horizontal communication systems are usually practiced in the forms of an employer delivering the information about reward systems to employees and allowing its employees to provide suggestions to their employer. If an organization is able to openly and honestly implement this communication system, it will clearly expose the value of the compensation package quantitatively and qualitatively, deliver accurate information about pay and performance relationships, permit a voice in the system and increase the ability to understand and perceive equity and fair treatment within the system. As a result, it may lead to an improved credibility of reward systems (Fitzgerald, 2000; Henderson, 2009; Milkovich et al., 2014).

Meanwhile, participation is broadly defined as an employer inspiring its employees in different hierarchical levels and categories to be involved in decision-

making, information-processing and/or problem-solving activities related to the start-up and operation phases of performance-based reward systems (Belfield & Marsden, 2003; Coyle-Shapiro et al., 2002; Ismail et al., 2011b). The readiness of the management to allow employees to be involved in establishing performance-based reward and making reward decisions will result in the management to receive productive recommendations and this action may encourage them to be honest in making personal contributions to their organizations (Mani, 2002; Milkovich et al., 2014).

Further, performance appraisal is mostly described as a systematic and formal appraisal method designed by the employers to evaluate their employees' actual performance based on the objective criteria (Ismail & Abd Razak, 2016; Martocchio, 2014; Milkovich et al., 2014). The outcomes of this performance appraisal will be used as a guideline by the administrators in determining rewards for their employees. The capability of administrators to properly implement systematic and fair performance appraisal and adequately allocate rewards according to their employees' actual performance may significantly motivate the employees to support organizational compensation goals (Ismail & Abd Razak, 2016; Milkovich et al., 2014).

Interestingly, latest studies about successful reward program highlight that the capability of administrators to appropriately implement communication, participation and performance appraisal in performance-based reward may have a significant impact on employee outcomes, especially interactional justice (Ibeogu & Ozturen, 2015; Lira et al., 2016). From the organizational justice perspective, numerous researchers such as Bies and Moag (1986), Greenberg (2003), McShane and Von Glinow (2015) had broadly defined interactional justice as a type of interpersonal treatment that individuals received from their manager and/or supervisor when procedures are implemented. If individuals feel that they have been fairly treated by authorities (e.g., manager or supervisor); i.e. with politeness, respect and accountability in reward decisions making and receive adequate explanation about the reasons of the authorities in implementing certain rules and regulations to determine outcomes, this situation may lead to enhanced feeling of interactional justice among the employees of the organizations.

Within a performance-based reward model, many scholars state that communication, participation, performance appraisal and interactional justice are distinct, but strongly interconnected concepts. For example, the ability of administrators to appropriately implement communication, participation and performance appraisal in allocating reward based on performance may lead to stronger feeling of interactional justice among the employees of the organizations (Ismail et al., 2011a; Lau, 2014; Susanj & Jakopec, 2012).

Although there have been many studies, the role of performance-based reward administration as an important predicting variable has been given less emphasized in the workplace reward research literature. Many scholars argue that this situation is due to several reasons: first, previous studies had much conceptually explained the definitions, purposes, significance and characteristics of the various kinds of

performance-based reward in organizations (Anuar et al., 2014; Brown et al., 2010). Second, previous studies had largely utilized a simple survey and correlation analysis method to identify employee perceptions about various types of reward system, as well as simple variance analysis to differentiate the effect of each performance based reward components on various types of performance based reward (Ismail et al., 2011a, 2011b, 2014; McCausland et al., 2005). Finally, previous studies had much been affected by macro econometric data and statistical formula to design and administer wage and salary system; but these approaches neglect to measure the effect size and nature of performance based reward administration on interactional justice in the reward management research literature (Ismail et al., 2016; Sabeen & Mehboob, 2008; Sogra et al., 2009). Consequently, these studies have produced general findings and this situation may not be adequate in guiding the practitioners to clearly understand the complexity of performance based reward construct, and formulate strategic action plans to improve the administration of reward systems in highly competitive organizations (Anuar et al., 2014; Ismail & Abd Razak, 2016). Therefore, this situation has strongly encouraged the researchers to further explore the nature of this relationship.

2. Research Objectives

This study has two main objectives: first, to assess the relationship between performance-based reward administration and interactional justice. Second, to assess the relationship between the specific dimensions of performance based reward administration (namely communication, participation and performance appraisal) and interactional justice, respectively.

3. Literature Review

The role of performance based reward administration as an important antecedent has gained strong support from interactional, the notion of interactional justice theory. Adams' (1963) equity theory posits that employees are very concern and sensitive to the treatment styles used by their superiors in distributing rewards. If employees perceived these treatment styles as fair, then this feeling may reinforce their positive actions (Adams', 1963; Allen & White, 2002). Meanwhile, Bies & Moag (1986) explained that employees are sensitive towards their managers' treatments and care while executing daily jobs such as information sharing, listening employees' needs and good rapport. If employees view these interaction styles as fair, then this feeling may evoke their positive behaviour. Moreover, Lind and Tyler's (1988) group value model proposes three types of relational judgments about authorities: standing or status recognition (e.g., assessments of politeness, treatment with dignity, and respect individuals' rights and entitlements), neutrality (e.g., decision-making procedures are unbiased, honest and decision based on evidence), and trust (e.g., motives of the

decision-maker are fair and reasonable or otherwise). Further, the due-process appraisal system by Folger et al. (1992) proposes three justice characteristics: adequate notice, fair hearing and judgment based on evidence. If employees view that they are being fairly treated in the process of distributing rewards, this feeling may induce positive behaviour. The notion of these justice theories had gained strong support from the performance based reward research literature.

Several extant studies had been conducted using an indirect effects model to examine performance based reward administration in different samples, such as perceptions of 384 employees from Midwestern Public University in United State of America (Day, 2011), 334 employees from private higher institution in Malaysia (Ismail et al., 2011), 537 employees from 17 public and private organizations in Croatia (Susanj & Jakopiec, 2012), 139 employees in United State of America (Lau, 2014), 100 bank employees in Cyprus (Ibeogu & Ozturen, 2015) and 2247 employees from public agency in Portugal (Lira et al., 2016).

These surveys reported three important findings: first, communication openness had widely been practiced between employees and administrators in the start-up, design and operation of performance based reward. The readiness of administrators and employees to openly and honestly communicate the information in the start-up, design and operation of performance based reward had strongly enhanced employees' feelings of interactional justice in the respective organizations (Day, 2011; Susanj & Jakopiec, 2012). Second, participation in decision making had often been practiced between employees and administrators in determining awards based on employee performance. The willingness of administrators to involve the employees in determining and distributing rewards based on performance had enhanced the employees' feelings of interactional justice in the different organizations (Ismail et al., 2011; Lau, 2014). Third, performance appraisal had been used to measure employee performance and results of this appraisal were used to determine the type, level and/or amount of rewards to employees. The competency of administrators to appropriately assess employee performance and allocate rewards based on the performance ratings had evoke employees' feelings of interactional justice in dissimilar organizations (Ibeogu & Ozturen, 2015; Lira et al., 2016).

The research literature has been used as foundation of establishing a conceptual schema for this study as exhibited in Figure 1.

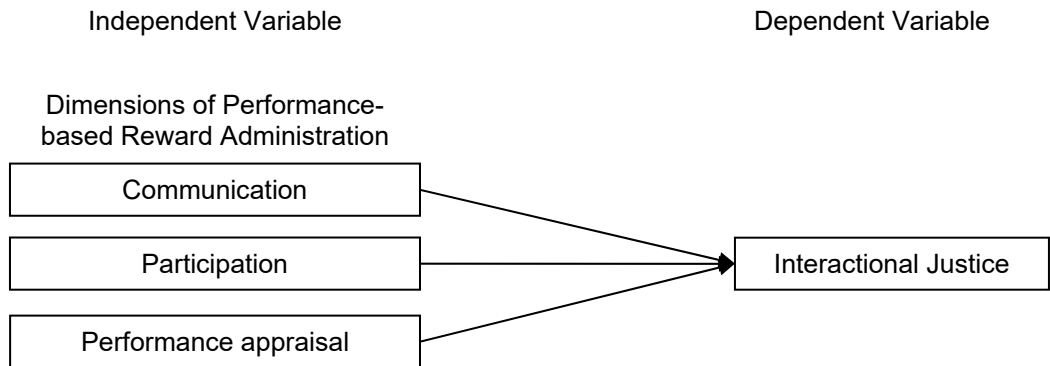


Figure 1: Conceptual framework

Based on the framework, it was hypothesized that:

H1: There is a positive relationship between performance-based reward administration and interactional justice.

H2a: There is a positive relationship between communication with interactional justice.

H2b: There is a positive relationship between participation with interactional justice.

H2c: There is a positive relationship between performance appraisal with interactional justice.

4. Methodology

This research utilized a cross-sectional research design which allows the researchers to combine the performance-based reward literature and the actual survey as a main procedure to gather data for this study. This data collection procedure may help the researchers to collect precise data, decrease bias and increase quality of data being collected (Anuar et al., 2014; Cresswell, 1998; Sekaran & Bougie, 2010). This study was implemented at fire and rescue organizations in Malaysia. At the initial stage of this study, semi-structured interviews were organized with four fire and rescue officers who had working experience of more than seven years in Selangor and Kuala Lumpur, Malaysia. Information gathered from this interview method had helped the researchers to comprehend the nature and features of the relationship between performance-based reward and interactional justice in the organizations. Then, this information was employed to enhance the content and format of the survey questionnaire for the actual study. Further, a back translation technique was used to translate the survey questionnaires into English and Malay versions as to increase the validity and reliability of research findings (Anuar et al., 2014; Cresswell, 1998; Sekaran & Bougie, 2010).

The survey questionnaire consists of four parts: first, communication had 3 items adapted from performance based reward related communication (Anuar et al., 2014; Garib Singh, 2009). Second, participation had 3 items adapted from performance based reward related participation (Brown et al., 2010; Ismail et al., 2011a). Third, performance appraisal had 4 items adapted from performance based reward related communication (Ibeogu and Ozturen, 2015; Lira et al., 2016; Phin, 2015). Finally, interactional justice had 3 items adapted from compensation management related justice (Niehoff & Moorman, 1993; Rahim et al., 2000). These items were measured using a 7-item scale ranging from “strongly disagree/dissatisfied” (1) to “strongly agree/satisfied” (7). Demographic variables were used as controlling variables because this research emphasizes on employee attitudes.

A purposive sampling was employed to circulate 400 survey questionnaires to employees in the organizations. This sampling technique was applied because the management of the organization had not provided the list of registered employees to the researchers and this situation prevented the researchers from using a random technique in choosing respondents for this study. Of the total number, 113 usable survey questionnaires were returned to the researchers, yielding 28 percent of response rate. The survey questionnaires were answered by participants based on their consent and on a voluntary basis. The number of this sample met the requirement of using SmartPLS to assess the survey questionnaire data.

The SmartPLS 3.0 was utilized to measure the validity and reliability of the instrument and test the research hypotheses. The main advantages of using this statistical package are that it may 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 (Henseler & Chin, 2010, Ringle et al., 2005).

5. Findings

Table 1 displays that, the majority of respondents were males (87.6%), aged from 25 to 34 years old (48.7%), MCE/SPM holders (72.6%), clerical and support staff (68.1%), working experiences from 5 to 14 years (34.5%), monthly salary between Malaysian Ringgit RM2500 to 3999 (49.6%), married employees (69.9%) and employees with less than three children (34.5%).

Table 1: Respondent Characteristics (n = 113)

Respondent Characteristics	Sub-Profile	Percentage
Gender	Male	87.6
	Female	12.4
Age	Less than 25 years	5.3
	25-34 years	48.7
	35-44 years	24.8
	45-54 years	17.7

	55 years and above	3.5
Education	LCE/SRP	4.4
	MCE/SPM	72.6
	HSC/STP	11.5
	Diploma	8.8
	Degree	2.7
Job Position	Management and Professional Group	20.4
	Supervisory Group	7.1
	Technical Staff	1.8
	Clerical and Support Staff	68.1
	Other	2.7
Length of Service	Less than 5 years	15.9
	5-14 years	34.5
	15-24 years	25.7
	25 years and above	23.9
Gross Monthly Salary	Less than RM1000	5.3
	RM1000-RM2499	38.1
	RM2500-RM3999	49.6
	RM4000-RM5499	4.4
	RM5500-RM6999	2.7
Marital Status	Single	30.1
	Married	69.9
Dependent	No Children	31.9
	Less than 3 children	34.5
	3 to 6 children	30.1
	6 children and above	3.5

5.1 Model Measurement

Table 2 shows the factor loadings and cross loadings for different constructs. The correlation between items and factors had higher loadings than other items in the different concepts, and the loadings of variables that were greater than 0.70 in their own constructs in the model are considered adequate (Henseler & Chin, 2010). Overall, the validity of the measurement model met the criteria. Meanwhile, the values of composite reliability for all constructs were greater than 0.80, indicating that the instrument used in this study had high internal consistency (Henseler & Chin, 2010; Nunally & Bernstein, 1994).

Table 2: The Results of Factor Loadings and Cross Loadings for Different Constructs, and Composite Reliability

Construct/Item	Cross Factor Loading				Composite Reliability
	1	2	3	4	
Communication	0.734 to 0.864				0.857
Participation		0.795 to 0.905			0.902
Performance Appraisal			0.777 to 0.833		0.877
Interactional Justice				0.700 to 0.916	0.861

Table 3 shows the results of convergent and discriminant validity analyses. All concepts had the values of AVE larger than 0.5, indicating that they had met the

acceptable standard of convergent validity (Barclay et al., 1995; Fornell & Larker, 1981). Besides that, the values of all concepts' AVE in diagonal were greater than the squared correlation with other concepts in off diagonal, signifying that all concepts had met the acceptable standard of discriminant validity (Henseler & Chin, 2010).

Table 3: The Results of Convergent and Discriminant Validity Analyses

Construct	AVE	1	2	3	4
Communication	0.668	0.817			
Participation	0.754	0.410	0.868		
Performance Appraisal	0.642	0.424	0.484	0.801	
Interactional Justice	0.677	0.465	0.531	0.498	0.823

5.2 Analysis of the Constructs

Table 4 shows the results of variance inflation factor and descriptive statistics. The means for all constructs were from 4.926 to 5.246, signifying that majority of the respondents perceived that the levels of communication, participation, performance appraisal, and interactional justice ranged from high (4) to highest (7) in the organizations. Meanwhile, the values of variance inflation factor for the relationship between the independent variable (i.e., communication, participation and performance appraisal) and the dependent variable (i.e., interactional justice) were less than 5.0, signifying that the data were not affected by serious collinearity problem (Hair et al., 2014). These results further confirm that the instrument used in this study had met the acceptable standards of validity and reliability analyses.

Table 4: The Results of Variance Inflation Factor and Descriptive Statistics

Construct	Mean	Standard Deviation	Variance Inflation Factor
Communication	4.926	0.893	1.245
Participation	4.964	0.667	1.373
Performance Appraisal	5.246	0.617	1.396
Interactional Justice	4.991	0.587	

5.3 Outcomes of Testing Hypotheses 1

Table 5 shows that the inclusion of performance-based reward administration in the analysis had explained 31.7 percent of the variance in the dependent variable. Specifically, the results of research hypothesis testing showed that performance-based reward administration was significantly correlated with interactional justice ($\beta=0.630$; $t=13.160$); therefore, H1 was supported. This result confirms that performance-based reward administration is an important determinant of interactional justice.

Table 5: The Outcomes of Testing H1

Structural Path	Path Coefficient	R ²
H1: Performance based reward administration → Interactional Justice	$\beta=0.630$; $t=13.160$	0.317

Note: Significant at $* > 1.96$

As an extension of testing the research hypotheses, other tests were further conducted to determine the overall predictive strength of the model, and predictive relevant for the reflective endogenous latent variable in the hypothesized model. The value of R² for interactional justice was 0.317, less than 0.33 (Henseler & Chin, 2010); hence, signifying that the overall predictive strength of the model was weak. Further, the result of predictive relevance for the reflective endogenous latent variable was 0.252, indicating that it was greater than zero for the reflective endogenous latent variable. Hence, this result has predictive relevance (Hair et al., 2014).

5.4 Outcomes of Testing Hypotheses H2a, H2b and H2c

Table 6 shows the results of testing research hypothesis: first, communication was significantly correlated with interactional justice ($\beta=0.230$; $t=2.825$); therefore, H2a was supported. Second, participation was significantly correlated with interactional justice ($\beta=0.317$; $t=4.003$), therefore H2b was supported. Third, performance appraisal was significantly correlated with interactional justice ($\beta=0.247$; $t=3.081$), therefore H2c was supported. This result confirms that communication, participation and performance appraisal are important determinants of interactional justice.

Table 6: The Outcomes of Testing H2a, H2b and H2c

Structural Path	Path Coefficient	R ²
H2a: Communication → Interactional Justice	$\beta=0.230$; $t=2.825$	0.399
H2b: Participation → Interactional Justice	$\beta=0.317$; $t=4.003$	
H2c: Performance Appraisal → Interactional Justice	$\beta=0.247$; $t=3.081$	

Note: Significant at $* > 1.96$

As an extension of testing the research hypotheses, other tests were further conducted to determine the overall predictive strength of the model, and predictive relevant for the reflective endogenous latent variable in the hypothesized model. The value of R² for interactional justice was 0.399, greater than 0.33 (Henseler & Chin, 2010); thus, signifying that the overall predictive strength of the model was moderate. Further, the result of predictive relevance for the reflective endogenous latent variable was 0.249, showing that it was greater than zero for the reflective endogenous latent variable. Hence, this result has predictive relevance (Hair et al., 2014).

6. Discussion and Conclusion

This study confirms that communication, participation and performance appraisal are important determinants of employees' feelings of interactional justice in the organizational sample. This finding also supported and broadened the performance-based reward research literature which mostly being published in Western countries. Therefore, current research and practices within workplace compensation program need to incorporate communication, participation and performance appraisal as fundamental elements in the performance-based reward domain. This study further suggests that the competency of administrators to appropriately design and administer performance-based reward will strongly evoke positive subsequent employee outcomes (e.g., satisfaction, commitment, and performance). Thus, these positive outcomes may maintain and further enhance the organizational strategy and goals in an era of global economy.

This study has several restrictions: First, a cross-sectional research design used in this study may not capture causal relationships between the variables of interest. Second, the outcomes of SmartPLS path model analysis have not measured the relationship between specific indicators for the independent variable and dependent variable. Third, the sample of this study is limited to employees of Malaysia Fire and Rescue Department. Thus, the generalization of these findings to other organizations is very restricted. Fourth, this study used a direct effect model to show the relationship between the independent variables and the dependent variable without examining the effects of moderating or mediating variable. The findings may differ if mediating or moderating variable is adopted. Finally, this study employed a small number of samples and it is exposed to the bias issues. If these limitations are strongly considered, a better finding may be discovered by future research.

Several suggestions need to be considered in order to strengthen future research in the field of this study: first, several potential demographic variables should be further discovered, whereby this may identify meaningful viewpoints in understanding how individuals' similarities and differences affect the implementation of performance-based reward in organizations. Second, other research designs such as longitudinal studies need to be utilized to collect data before and after the implementation of performance-based reward in order to clearly describe the patterns of change and the direction and magnitude of causal relationships amongst variables of interest. Third, to fully understand the effect of performance-based reward on employee outcomes, more types of organization need to be involved. Fourth, other specific theoretical constructs of performance based reward administration such as managerial responsibility and leadership behaviour need to be considered because they have been widely acknowledged as important links between performance-based reward and many aspects of employee outcomes (Milkovich et al., 2014; Ismail et al., 2014). Fifth, response bias and common-method variance may be decreased if a large sample size is used to represent the studied population. Finally, other specific components of interactional justice such as interpersonal skill, team work and

information sharing need to be considered because they have been widely recognized as important links between performance-based reward administration and many aspects of employee outcomes (Martocchio, 2014; Milkovich et al., 2014). The importance of these issues needs to be further explored in future study.

7. References

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