

ADMINISTRATOR'S ROLE IN PERFORMANCE BASED REWARD AS A DETERMINANT OF EMPLOYEE OUTCOMES

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Abstract:

According to the recent literature pertaining on workplace compensation program, administrators often play two important roles in planning and implementing performance based reward: communication and performance appraisal. Recent studies in this field highlights that the ability of administrators to appropriately communicate pay information and appraise employee performance may have a significant impact on employee outcomes, especially job satisfaction and organizational commitment. Therefore, this study was conducted to assess the relationship between administrator's role in performance based reward and employee outcomes using self-administered questionnaires collected from employees at a district council in Malaysia. The outcomes of the SmartPLS path model analysis showed that pay communication does not act as an important determinant of job satisfaction, but performance appraisal does act as an important determinant of job satisfaction. Conversely, both pay communication and performance appraisal act as important determinants of organizational commitment. Hence, discussion, implications and conclusion are elaborated.

Keywords: Pay communication, performance appraisal, job satisfaction, organizational commitment

1. Introduction

In a human capital management perspective, compensation is often viewed as an employer designs and administers reward systems in order to bestow its employees who perform service and/or job in organizations (Milkovich, Newman et al, 2014; Ismail, Hock et al, 2007; Ismail, Anuar et al, 2013; Henderson, 2009; McShane and Von Glinow, 2005). Traditionally, pay for job is often implemented by an employer to determine the type, level and/or amount of reward based on

employees' job conditions and responsibilities. For example, this pay system is often implemented in terms of time based pay, membership based pay, seniority and tenure based pay. Adoption of this pay system, although may still be appropriate and applicable in stable and highly predictable business conditions (Wilton, 2010; Henemen, Ledford et al, 2000, pp. 195-240; Mahoney, 1992) is gradually viewed as insufficient to attract, retain and motivate competent employees to

increase organizational performance (Bergmann and Scarpello, 2002).

Then in an era of borderless world, many employers have shifted the paradigms of compensation program from a traditional job based pay to performance based reward in order to achieve their organizational strategy, culture and goals (Milkovich, Newman et al, 2014; Henemen, Ledford et al, 2000; Lawler, 2000). For example, compensation experts from the Tower Watson (Donald Delves as the Director, Executive Compensation and Lori Wisper as Senior Consultant, Rewards) during an interview by Peter Gundy (Managing Director, Rewards, Talent and Communication, Americas) have stated that the practice of this system no doubt very beneficial especially to the excellence of the organization in the future (Delves, Gundy et al, 2013, pp. 1-4).

Some economists divide the labour into productive and non-productive labour. It is productive if it adds some material value like labour in the agricultural sector and manufacture. If it does not result in some material value then it is unproductive. According to Adam Smith, labour of menial servants as well as of the most respectable orders in society such as sovereign with all its officers in civil administration, justice and armed forces, is unproductive. However, according to modern conception all labour is called productive provided it is done to earn an income. Labour in this sense includes the very highest professional skill of all kinds as well as the labour of a mass of unskilled workers. Thus it includes labour of highly educated professionals like scientists, engineers, doctors, economists, professors, lawyers, judges, accountants, diplomats, administrators, as well as that of ordinary workers in factories, agricultural farms, government departments, private sector, etc.

The problem of wages is very important as it effects the whole society.

If the workers do not get fair and reasonable wages, it will not only affect their subsistence but also their purchasing power. And if a large portion of population like labourers have no purchasing power, it would adversely effect all those industries which are supplying consumer goods to the working class. Moreover, injustice to working class would lead to discontentment, frustration, agitation and strikes. Thus if the labourers are deprived of their just share from the national income, it would be in the long run an economic suicide' for a country (Chaudury, 2013).

Hence, the Milken Family Foundation for example has proposed a bold new, systemic school improvement strategy. Its goal is to improve the quality of the teaching profession because excellent teachers enhance student learning. This program, known as the Teacher Advancement Program or TAP has five components, one of which is performance-based compensation. Salaries depend upon teacher achievements, teacher performance, tasks undertaken, and student achievement (Solmon and Podgursky, 1995). A report by the US Merit Systems Protection Board Washington DC in January, 2006 stated that agencies often have many objectives for pay for performance. For example, they may aim to improve the organization's ability to attract and retain high performers. They may hope to improve individual effort and consequently, organizational performance. They may also be searching for a fairer way to pay since those who contribute more to the organization should receive a larger salary in return.

One of the commonly cited studies in education considering the outcome of group-based performance rewards are Kelley, Heneman and Milanowski's (Kelley, Heneman and Milanowski, 2002, pp. 372-401; Kelley, 1999, pp. 309-326; Heneman and Milanowski,

1999, pp. 327-341) studies of the Kentucky and Charlotte-Mecklenburg's School-Based Reward Programmes. It is argued school-based reward programmes are beneficial because they motivate teachers, and this improved motivation increases student performance, which has a positive overall effect on student outcomes (Harvey-Beavis, 2003).

When referring to the performance based reward, it is also known as a reward for person where an employer provides the type, level and/or amount of monetary and non-monetary payments based on employees' skills, knowledge, competencies and/or merit (Henderson, 2009; Bender, 2003, pp. 62-80; Blau and Kahn, 2003, pp. 106-145). This new payment system has two major types: reward for group performance (team based pay and gain-sharing) and reward for individual performance (e.g., merit pay, lump sum bonus, promotion based incentives and variable pay). However, performance based reward has different types, they still use the same rule to allocate pays, which is when an employer rewards additional pays to the basic pay in order to meet high performers' needs and expectations (Newman et al, 2014; Ismail, Anuar et al, 2013; Ismail, Hock et al, 2011; Milkovich, Chang and Hahn, 2006, pp. 397-412; Lawler, 2000; Law and Bobko, 1999, pp. 851-873). Under this pay system, the fluctuations of pay levels and structures are now contingent upon the level of performances, skills, knowledge and/or competency exhibited by the employees and not the nature of their job structure (Lee, Law et al, 2003, pp. 851-873; Dorantes and Mach, 2003, pp. 673-698; Appelbaum and Mackenzie, 2000, pp.31-39).

The main advantage of implementing performance based reward will attract, retain and motivate employees to achieve the major objectives of organizational pay system: efficiency (i.e., improving performance,

quality, customers, and labor costs), equity (i.e., fair pay treatment for employees through recognition of employee contributions and employees' needs) and compliance with laws and regulations (Gomez-Mejia and Balkin, 1992a, 1992b, pp. 921-955). Hence, it may lead to sustained and increased organizational performance (Jeyasutharsan and Rajasekar, 2013, pp. 400-406) and competitiveness in a dynamic marketplace (Beardwell and Claydon, 2007; Lawler, 2000, pp. 31-39).

As in the U.S, a National Research Council (NRC) panel reviewed both public and private sector research on pay for performance. The panel's summary of findings concluded that an empirical research indicates that individual incentive plans can motivate employees and improve individual performance (Milkovich and Wigdor, 1991). The panel qualified this conclusion, however, by observing that individual incentive schemes are most likely to succeed for simple, structured jobs and in contexts in which trust is high and fair performance goals can be set. The implied connection between the panel's general conclusions and the organisational setting is that conditions for success may be difficult to realize in certain organisations (Dogbe, 2011, pp. 272).

A review of recent organizational compensation program highlights that many managers have played three important roles in planning and implementing performance based reward, namely pay communication and performance appraisal. In a compensation management, pay communication is often defined as communicating the information about pay systems from employees to the organization and from the organization to employees (Fitzgerald and Berger, 2000; Hewitt, 1991). Communicating pay information from employees to the organization refers to communication that occurs among pay administration

analysts, human resource management experts/pay specialists and stakeholders where they actively seek broad information (e.g., job and labor market information) and specific information (e.g., compensation expectations and preferences) from employees (Henderson, Milkovich et al, 1995, pp. 14-22).

Conversely, communicating pay information from the organization to employees refers to openness and secrecy policies used by an organization where these policies will determine toward extent the amount of pay information may be openly delivered from the organization to employees. The ability of administrators to properly use these communication policies may increase employees' understanding about the policy and procedures of pay system, avoid feelings of inequity, and respect employee personal dignities (Fitzgerald, 2000; Henderson, 2000; Flannery, Hofrichter et al, 1996). Moreover, according to Hackett and Mcdermott (1999) to ensure that the organization can achieve its objectives in conducting this compensation, both employers and employees must understand the seven steps of the successful performance-based rewards programs which are: develop clear expectation, create a clear line of sight, set achievable goals, establish a credible measurement system, make rewards meaningful and lastly make payouts immediately (Hackett and Mcdermott, 2014). Thus, many companies in western countries, particularly in the U.S. who have successfully applied this system in their organization such as Lincoln Electric, Cleveland in Ohio; Nucor Corporation, Charlotte, North Carolina; Douglas County Federation of Teachers, Douglas County, Colorado (Abernathy, Dickinson et al, 2014).

While, performance appraisal is usually defined as an employer designs measurement methods to evaluate the ability of employees in performing duties

and responsibilities based on their trait, behaviour and/or result criteria. The results of this evaluation will be used to determine the type, level and/or amount of pay for employees who work in different hierarchical levels and categories in organizations (Noe, Hollenbeck et al, 2014; Daft, 2012; Mondy and Mondy, 2012; Sabeen and Mehbob, 2008, pp. 185-192). In successful organizations, for example, yearly performance appraisal system based on single and/or multiple rater perspectives is often used to identify high performing employees and they will be given better incentives (e.g., performance bonuses and other recognitions) besides their basic salaries compared to underperform employees (Mondy and Mody, 2014; Henderson, 2009).

Surprisingly, extant research in organizational pay system reveals that the ability of managers to properly implement performance based reward may have a significant impact on employee outcomes, especially job satisfaction (Ismail, Anuar et al, 2013; Money and Graham, 1999;) and organizational commitment (Garib Singh, 2009, pp. 20-38; Hafer and Martin, 2006). According to an organizational behaviour perspective, job satisfaction is often seen as a result of employees' perception or appraisal of their jobs (McShane and Von Glinow, 2014). If employees have experienced high satisfaction with their job, this may create a pleasurable or emotional state (Bartolo and Furlonger, 2000, pp. 87-97; Locke, 1976, pp. 1297-1349) and a positive reaction in organizations. Conversely, organizational commitment is generally interpreted as an employee's belief in the organization's goals and values, desire to remain a member of the organization and loyalty to the organization (Maume, 2006, pp. 161-190; Hackett, Bycio et al, 1994, pp. 15-23; Mowday, Steers et al, 1979, pp. 224-247).

Within an organizational pay model, many western scholars view that pay communication, performance appraisal, job satisfaction and organizational commitment are distinct, but highly interconnected constructs. For example, the ability of managers to appropriately communicate the information about performance based reward to employees and appropriately determine the type, level and/or amount of pay based on performance appraisal systems may lead to an enhanced job satisfaction, (Ismail, Anuar et al, 2013; Money and Graham, 1999) and organizational commitment (Garib Singh, 2009, pp. 20-38; Hafer and Martin, 2006, pp.1-19). Even though the nature of this relationship is interesting, the role of managers in performance based reward as an important predicting variable is not much discussed in the workplace pay system research literature (Ismail, Anuar et al, 2013).

Many scholars contend that the predicting variable of manager's role in performance based reward is given less emphasized in the previous studies because they have much discussed the characteristics of performance based reward, employed a simple association method to assess respondent attitudes toward the types of performance based reward and determine the degree of association between certain features of performance based reward and employee outcomes. Conversely, the effect size and nature of the relationship between manager's role in performance based reward and employee outcomes are largely ignored in the workplace compensation management research literature (Garib Singh, 2009, pp. 20-38; Money and Graham, 1999, pp. 149-172). As a result, these studies have not adequately provided recommendations to be used as guidelines by practitioners in understanding the complexity of performance based reward and formulating strategic and tactical plans to enhance the effectiveness of performance based reward in agile

organizations (Ismail, Anuar et al, 2013). Therefore, this study has four major objectives: First, is to measure the relationship between pay communication and job satisfaction. Second, is to measure the relationship between performance appraisal and job satisfaction. Third, is to measure the relationship between pay communication and organizational commitment. Fourth, is to measure the relationship between performance appraisal and organizational commitment.

2. Literature Review

Several recent studies were conducted using a direct effects model to investigate pay for performance based on different samples, such as perceptions of 299 U.S. employees and 268 of Japanese employees (Money and Graham, 1999, pp. 149-172), 553 non-managerial employees in Omaha, the largest city in the state of Nebraska, United States (Hafer and Martin, 2006, pp.1-19), perceptions of 333 Malaysian middle and top level managers in the private sector (Garib Singh, 2009, pp. 20-38), and perceptions of 331 employees at Malaysian private institutions of higher learning (Ismail, Anuar et al, 2013). The findings of these studies showed that the readiness of managers to openly communicate the information about performance based reward system and appropriately determine the type, level and/or amount of pay based on performance appraisal systems had motivated employees to enhance their job satisfaction (Money and Graham, 1999, pp. 149-172) and organizational commitment (Hafer and Martin, 2006, pp.1-19).

The empirical studies support the principle meaning of motivation theory. For example, Vroom's (Vroom, 1964) expectancy theory explains that an individual will positively react if he/she clearly understands the value of consequences. While, Lawler's (Lawler, 1971) discrepancy theory posits that

allocation of pays (e.g., actual income) equally with employee expectations (e.g., expected income) may affect individual positive reactions. In addition, Bies and Moag (Bies and Moag, 1986) interactional justice theory suggests that a person heavily concerns about good or bad treatment that he/she receives from another person may affect his/her behavior. Application of these theories in a performance based reward model shows that understand the value of consequences, feelings of pay equity and fairness treatment will enhance if management able to appropriately implement performance appraisal and pay communication in managing the pay systems. As a result, it may lead to greater job satisfaction (Ismail, Anuar et al, 2013; Money and Graham, 1999, pp. 149-172) and organizational commitment (Garib Singh, 2009, pp. 20-38; Hafer and Martin, 2006, pp.1-19). Hence, it was hypothesized that:

H1: Pay communication positively related to job satisfaction.

H2: Performance appraisal positively related to job satisfaction.

H3: Pay communication positively related to organizational commitment.

H4: Performance appraisal positively related to organizational commitment.

3. Research Methodology

3.1 Research Design

This study employed a cross-sectional research design which allowed the researchers to integrate the performance based reward literature, the semi-structured interview, the pilot study and the actual survey as a main procedure to gather data. The main advantage of using this data collection procedure may help the researchers to gather accurate data, decrease bias data and increase quality of data being collected (Sekaran and Bougie, 2013; Ismail, Hock et al, 1998). This study was conducted at a district council in Peninsular Malaysia. For confidential reasons, the name of this organization

is kept anonymous. This organization was established an autonomy body in 1977 where its goals are to develop this district as an important service and business center, garden urban and urban transit in Southern Peninsular Malaysia. In order to achieve this objective, Human Resource Division of the organization has introduced a performance based reward in 1992 and the weaknesses of implementing this pay system was improved in 2002 and 2013 as an important mean to attract, retain and motivate competent employees in accomplishing its goals. The effectiveness of this pay system is often highlighted by management of the organization, but its effectiveness has not been empirically tested by outsiders. Under a mutual understanding between the researchers and management of this organization, a small research project has been implemented for three months in 2014 to discover the effect of implementing this pay system on employee attitudes and behavior in the organization.

At the initial stage of this study, a survey questionnaire was drafted based on the performance based reward literature. Next, the semi-structured interview was conducted involving five employees in the management and professional group. These employees were selected using a purposive sampling because they had working experiences for more than five years and showed good knowledge and able to describe clearly (Bernard and Ryan, 2010, pp. 365) about compensation management system in the organization. The information obtained from this interview helped the researchers to understand the nature (Long, 2009, pp. 66) and features of performance based reward and job satisfaction, as well as the relationship between such variables in the context of this study. Then, a pilot study was done by discussing the survey questionnaire with the interviewed participants in order to verify the content and format of

survey questionnaire for an actual study. Further, a back translation technique was employed to translate the survey questionnaires into English and Malay versions in order to increase the validity and reliability of research findings (Creswell, 2014; Sekaran and Bougie, 2013).

3.2 Measures

The survey questionnaire used in this study consists of three sections. First, pay communication had 4 items and performance appraisal pay had 6 items that were adapted from the workplace performance based reward (Milkovich, Newman et al, 2014; Kim, 1999, pp. 21-38; Pettijohn, Pettijohn et al, 2001, pp. 127-146; Greenberg, 2003, pp. 41-57; Greenberg, 1996; Kim, 1996, pp. 227-244; Gomez-Mejia and Balkin, 1992a, 1992b, pp. 921-955). The dimensions of pay communication were reflect the organisation's goals and strategy, consistent with the organisation's cultural value, consistent with best practice, and encourage to work hard. The dimensions of performance appraisal were familiar with performance evaluation, appraise employees' abilities, sufficient reasons in performance evaluation, determine scores based on employees' contributions, salary raise based on job performance, and provide highest rewards for productive workers. Second, job satisfaction had 3 items that were adapted from Warr et al.'s (Warr, Cook et al, 1979, pp. 129-148) job satisfaction scale. The dimensions of job satisfaction were recognition, responsibility and industrial relations. Finally, organizational commitment 3 items that were adapted from Mowday et al.'s (Mowday, Steers et al, 1979, pp. 224-247) organizational commitment scale. The dimensions of organizational commitment were beyond normal effort, as a great organization and inspire to work best. All items used in the questionnaires 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 study focused on employee perceptions.

3.3 Sample

The population of this study is 50 employees in the studied organization. The survey questionnaires were distributed to all employees in the organizations, and 50 usable questionnaires were returned to the researchers, yielding 100 percent of the response rate. The survey questionnaires were answered by participants based on their consents and on a voluntary basis. This figure meets a good decision model as suggested by Krecjcie and Morgan, (Krejcie and Morgan, 1970, pp. 607-610) and exceeds the minimum sample of probability sampling, showing that it can be analyzed using inferential statistics (Sekaran and Bougie, 2013).

3.4 Data Analysis

The SmartPLS 2.0 was employed to analyze the survey questionnaire data because it has the capability to deliver latent variable scores, avoid small sample size problems, estimate every complex models with many latent and manifest variables, handle stringent assumptions about the distribution of variables and error terms, and handle both reflective and formative measurement models (Ringle, Wende et al, 2010, pp. 195-218; Henseler, Ringle et al, 2009, pp. 277-320). The procedure of data analysis is: first, confirmatory factor analysis was used to assess the validity and reliability of instrument. Second, Pearson correlation analysis and descriptive statistics were employed to estimate the validity and reliability of constructs. Third, SmartPLS path model analysis was utilized to test the hypothesized model. The outcomes of this test will clearly show the significant relationship between the independent variable and the

dependent variable if the value of t statistic larger than 1.96 (Henseler, Ringle et al, 2009, pp. 277-320). The value of R^2 is used as an indicator of the overall predictive strength of the model. The value of R^2 are considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Henseler, Ringle et al, 2009, pp. 277-320; Chin, 2001; Chin, 1998, pp. 295-358). In addition, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels et al.'s (Wetzels, Odekerken-Schroder et al, 2009, pp. 177-195) global fit measure. If the results of testing hypothesized model exceed the cut-off value of 0.36

for large effect sizes of R^2 , showing that it adequately support the PLS path model globally (Wetzels, Odekerken-Schroder et al, 2009, pp. 177-195).

4. Findings and interpretation of the study

4.1 Respondent Characteristics

Table 1 shows that majority respondents were females (60 %), ages between 26 to 30 years old (58 %), Diploma holders (54 %), permanent staff (86 %), working experiences from 2 to 4 years (48 %) and monthly salary between RM2001 to 2500 (38 %).

Table 1.

Respondents' Characteristics (N=50)

Sample Profile	Sub-Profile	Percentage
Gender	Male	40 %
	Female	60 %
Age	Less than 25 years	18 %
	26 to 30 years	58 %
	31 to 40 years	18 %
	41 to 45 years	6 %
Education	SPM/MCE	4 &
	Diploma	54 %
	Bachelor	42 %
Type of Service	Permanent	86 %
	Contract	14 %
Length of Service	Less than 2 years	14 %
	2 to 4 years	48 %
	5 to 7 years	28 %
	8 to 10 years	4 %
	11 to 13 years	2 %
Salary (Malaysian Ringgit)	More than 14 years	4 %
	1000 to 1500	22 %
	1501 to 2000	30 %
	2001 to 2500	38 %
	2501 to 3000	8 %
> 3001	2 %	

Note: SRP/LCE: Sijil Rendah Pelajaran Malaysia/Lower Certificate of Education
 SPM/MCE: Sijil Pelajaran Malaysia/Malaysia Certificate of Education
 STP/HSC: Sijil Tinggi Pelajaran/Higher School Certificate

4.2 Validity and Reliability of the instrument

Table 2 shows the results of convergent and discriminant validity analyses. All concepts had the values of average variance extracted (AVE) larger than 0.5, indicating that they met the

acceptable standard of convergent validity (Henseler, Ringle et al, 2009, pp. 277-320; Barclay, Higgins et al, 1995, pp. 285-309; Fornell and Larckell, 1981, pp. 39-50). Besides that, all concepts had the values of $\sqrt{\text{AVE}}$ in diagonal were greater than the squared

correlation with other concepts in off diagonal, signifying that all concepts met the acceptable standard of

discriminant validity (Henseler, Ringle et al, 2009, pp. 277-320; Yang, 2009, pp. 28-35).

Table 2.
The Results of Convergent and Discriminant Validity Analyses

Variable	AVE	Participat ion	Allocatio n	Job Satisfactio n	Organization al Commitment
Pay Communication	0.671905	0.8197			
Performance Appraisal	0.742397	0.661718	0.8702		
Job Satisfaction	0.604751	0.444469	0.469236	0.7776	
Organizational Commitment	0.757265	0.710415	0.828147	0.414856	0.8702

Table 3 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, as well as the loadings of variables were greater than 0.7 in their own constructs in the model are considered adequate (Henseler, Ringle et al, 2009, pp. 277-320; Yang, 2009,

pp. 28-35). In sum, the validity of the measurement model met the criteria. Besides that, the values of composite reliability were greater than 0.8, indicating that the instrument used in this study had high internal consistency (Henseler, Ringle et al, 2009, pp. 277-320; Yang, 2009, pp. 28-35; Nunally and Bernstein, 1994).

Table 3.
The Results of Factor Loadings and Cross Loadings for Different Constructs

Construct	No. of Item	Cross-Factor Loadings	Composite Reliability
Pay Communication	4	0.710 to 0.861	0.891
Performance Appraisal	6	0.802 to 0.929	0.945
Job Satisfaction	3	0.701 to 0.899	0.819
Organizational Commitment	3	0.805 to 0.929	0.903

4.3 Analysis of the Constructs

Table 4 shows the results of Pearson correlation analysis and descriptive statistics. The means for all variables were from 4.9 to 6.1, signifying that the level of pay communication, performance appraisal, job satisfaction and organizational commitment ranging from high (4.0) to

the highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., pay communication and performance appraisal) and the dependent variable (i.e., job satisfaction and organizational commitment) were less than 0.90, indicating the data were not affected by serious collinearity problem (Hair,

Anderson et al, 2006). Hence, the reliability values for the constructs were 1.0 were shown in a diagonal, indicating that the constructs had met the standards of reliability analysis. Therefore, these statistical results

confirm that the constructs have met the acceptable standards of validity and reliability analyses (Henseler, Ringle et al, 2009, pp. 277-320; Yang, 2009, pp. 28-35; Nunally and Bernstein, 1994).

Table 4.

Pearson Correlation Analysis and Descriptive Statistics

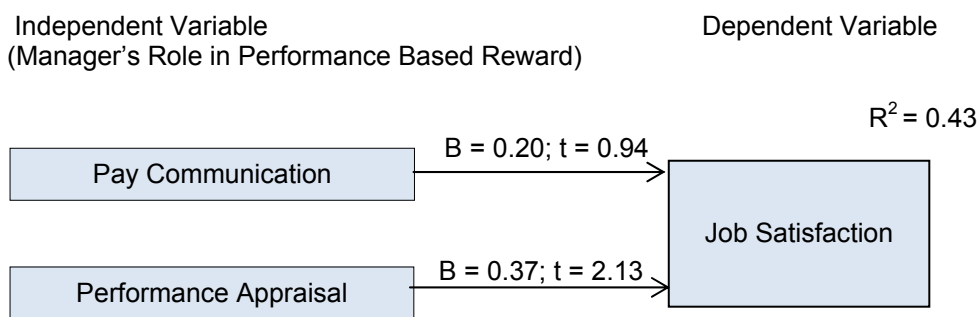
Variable	Mean	Standard Deviation	Pearson Correlation Analysis (r)			
			1	2	3	4
1. Pay Communication	4.9	.61	1			
2. Performance Appraisal	5.7	1.1	.67**	1		
3. Job Satisfaction	6.1	.70	.38**	.43**	1	
4. Organizational Commitment	5.8	.89	.69**	.83**	.45**	1

Note: Significant at **p<0.01 Reliability Estimation is Shown in a Diagonal

4.4 Outcomes of Testing Hypotheses 1 and 2

Figure 1 presents the quality of model predictions in the analysis was demonstrated by the score of R square. The inclusion of pay communication and performance appraisal in the analysis had explained 28 percent of the variance in job satisfaction. Specifically, the result of SmartPLS path analysis revealed two important findings: first, pay communication was positively and

insignificantly correlated with job satisfaction ($\beta=0.20;t=0.94$), therefore H1 was not supported. Second, performance appraisal was positively and significantly correlated with job satisfaction ($\beta=0.37;t=2.13$), therefore H2 was supported. In sum, the result confirms that pay communication does not act as an effective determinant of job satisfaction, but performance appraisal does act as an effective determinant of job satisfaction.



Note: Significant at *t >1.96

Figure 1. The Outcomes of SmartPLS Path Model Showing the Relationship between Manager's Role in Performance based Reward and Job Satisfaction.

In order to determine a global fit measure (GoF) based on Wetzels et al.'s (2009) guideline as follows:

GoF=SQRT{MEAN (Communality of Endogenous) x MEAN (R²)}=0.43, signifying that it exceeds the cut-off value of 0.36 for large effect sizes of R². This result confirms that the model provides strong support to validate the PLS model globally (Wetzels, Schroder et al. 2009).

4.5 Outcomes of Hypotheses 3 and 4

Figure 2 presents the quality of model predictions in the analysis was demonstrated by the score of R square. The inclusion of pay communication and performance appraisal in the analysis had explained 73 percent of the

variance in organizational commitment. Specifically, the result of SmartPLS path analysis revealed two important findings: first, pay communication was positively and significantly correlated with organizational commitment ($\beta=0.29;t=2.01$), therefore H1 was supported. Second, performance appraisal was positively and significantly correlated with organizational commitment ($\beta=0.64;t=4.45$), therefore H2 was supported. In sum, the result confirms that pay communication and performance appraisal act as effective determinants of organizational commitment.

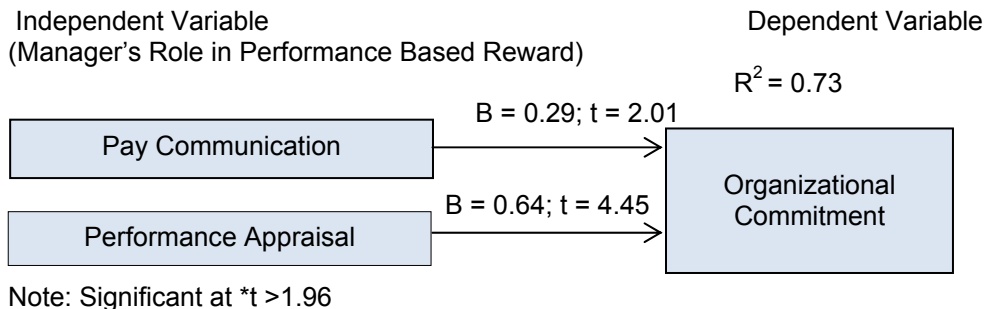


Figure 2. The Outcomes of SmartPLS Path Model Showing the Relationship between Manager's Role in Performance based Reward and Organizational Commitment

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels et al.'s (2009) guideline (Wetzels, Schroder et al, 2009, pp. 177-195) as follows:

GoF=SQRT{MEAN (Communality of Endogenous) x MEAN (R²)}= 0.73, signifying that it exceeds the cut-off value of 0.36 for large effect sizes of R². This result confirms that the model provides strong support to validate the PLS model globally (Wetzels, Schroder et al, 2009, pp. 177-195).

5. Discussion and Implications

The results of this study confirm that the pay communication does not act as an effective determinant of job satisfaction, performance appraisal does act as an effective determinant of job satisfaction. Conversely, pay communication and performance appraisal act as effective determinants of organizational commitment in the organizational sample. In the context of this study, managers design and administer performance based reward based on in compensation policies and rules set up by their stakeholders.

Majority respondents perceive that the levels of pay communication, performance appraisal, job satisfaction and organizational commitment are high. This situation describes that managers have taken high initiatives to openly communicate the information about performance based reward, but it may not be able to enhance employees' job satisfaction. Conversely, the willingness of managers to appropriately implement performance appraisal in determining performance based reward may lead to enhanced employees' job satisfaction in the organization.

This study provides three implications: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study highlight three major outcomes: firstly, pay communication and performance appraisal have been effective determinants of organizational commitment. This result is consistent with studies by Hafer and Martin (Hafer and Martin, 2006, pp. 1-19), and also Sharan and Garib (Garib Singh, 2009, pp. 20-38). Second, performance appraisal has been an effective determinant of job satisfaction. This result is consistent with studies by Money and Graham (Money and Graham, 1999), and Ismail et al (Ismail, Anuar et al, 2013). Third, pay communication has not been an effective determinant of job satisfaction. A careful observation of the semi-structured interview results shows that this finding may be affected by external variables: first, majority of managers practice a high distance power in dealing with employees and this situation may decrease the level of communication openness in managing performance based reward. Second, individual managers have different capabilities in making pay decisions and this condition may not be able to fulfill employees' needs and expectations. These factors may overrule the effect of manager's role in performance based

reward on job satisfaction in the organization.

With respect to the robustness of research methodology, the survey questionnaires used in this study have met the requirements of validity and reliability analyses. This could lead to produce accurate and reliable research findings. In terms of practical contributions, the findings of this study may be used to improve the design and administration of performance based reward in organizations. The objective may be achieved if management considers the following aspects: Firstly, align the compensation strategy and goals according to internal and external organizational challenges in order to meet employees' expectations, increase employees' standards of living and statuses in society, as well as attract, retain and motivate them to continuously support their organizational mission and vision. Secondly, the content and methods of leadership development program should be tailored to current organizational strategy and goals. For example, the content and methods of leadership development program should emphasize on developing managers' creative soft skills such as able to stimulate employees' intellects in doing a job, respect employees' voices, counsel employees to increase their potential to achieve better career, learn new problem solving skills approach and share the organizational interests. For example, these useful knowledge and skills can be practiced by managers to improve interaction with employees who have different backgrounds, as well handle and solve employee complaints and demands about their compensation issues. If organizations give more attention to these suggestions it may motivate employees who work in different hierarchical levels and categories to accept and achieve the workplace compensation strategy and goals.

6. Limitations and Future Directions

The conclusion drawn from the results of this study should consider the following limitations. Firstly, the data was only taken once during the duration of this study. Therefore, it did not capture the developmental issues such as intra-individual change and restrictions of making inference to participants and/or causal connections between variables of interest. Secondly, this study only examines the relationship between latent variables and the conclusion drawn from this study does not specify the relationship between specific indicators for the independent variable, mediating variable and dependent variable. Thirdly, this study only focused on particular elements of performance based reward and neglected other important factors (e.g., pay participation, pay distribution criteria and management responsibility). Fourthly, other performance based reward outcomes (e.g., job motivation, job performance, job turnover and deviant behavior) that are significant for organizations and employees are not discussed in this study. Fifthly, although a substantial amount of variance in dependent measures explained by the significant predictors is identified, there are still a number of unexplainable factors that can be incorporated to identify the causal relationship among variables and their relative explanatory power. Finally, the sample for this study was taken using a convenient sampling technique in a district council in Malaysia. These limitations may decrease the ability of generalizing the results of this study to other organizational settings.

The conceptual and methodology limitations of this study need to be considered when designing future research. Firstly, the organizational and personal characteristics that act as a potential variable and can influence the effectiveness of performance based

reward should be further explored. If organizational and personal characteristics are used in research, this may provide meaningful perspectives for understanding the individual differences and similarities that affect attitudinal and behavioral outcomes. Secondly, the weaknesses of cross sectional research design may be overcome if longitudinal studies are used to collect data and describe the patterns of change and the direction and magnitude of causal relationships between variables of interest. Thirdly, the findings of this study may produce different results if this study is done in more than one organization. Fourthly, as an extension of the interactional justice, other theoretical constructs of organizational justice theory (e.g., distributive justice and procedural justice) needs to be considered because they have been widely recognized as an important link between performance base reward and employee outcomes. The importance of these issues needs to be further discussed in future studies.

7. Conclusion

This study tested a conceptual framework that was developed based on workplace compensation research literature. The confirmatory factor analysis confirmed that the instrument used in this study met the acceptable standards of validity and reliability analyses. The outcomes of SmartPLS path model analysis showed three important findings: first, performance appraisal was positively and significantly correlated with job satisfaction, therefore H2 was supported. Second, pay communication and performance appraisal were positively and significantly correlated with organizational commitment, therefore H3 and H4 were supported. The results of H2, H3 and H4 also have supported and broadened performance based reward studies mostly published in Western countries. Third, pay

communication was positively and insignificantly correlated with job satisfaction, therefore H1 was not supported. A careful observation of the semi-structured interview results shows that this finding may be affected by two main external variables: first, majority of managers practice a high distance power in dealing with employees and this situation may decrease the level of communication openness in managing performance based reward. Second, individual managers have different capabilities in making pay decisions and this condition may not able to fulfill employees' needs and expectations. These factors may overrule the effect of manager's role in performance based reward on job satisfaction in the

organization. Therefore, present research and practice within the workplace pay model needs to consider pay communication and performance appraisal as critical components of the performance based reward domain. This study further suggest that the ability of managers to appropriately implement pay communication and performance appraisal in planning and implementing performance based reward will strongly invoke positive subsequent employee outcomes (e.g., performance, fairness, trust, ethics and competitiveness). Thus, these positive outcomes may lead to maintained and support stakeholders' needs and expectations in an era of globalization.

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