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Effect of Participation in Performance Pay Systems and Employees' Satisfaction with Job Conditions

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Abstract

The aim of this research is to evaluate the association between participation in performance pay systems and employees' satisfaction with job conditions. A survey method was utilized to collect data from subordinates who serve at disaster management agencies in West Malaysia. The findings of SmartPLS path model analysis display four important outcomes: first, the relationship between participation in pay plans and satisfaction with intrinsic job conditions was not significant. Second, relationship between participation in pay operations and satisfaction with intrinsic job conditions was not significant. Third, the relationship between participation in pay plans and satisfaction with extrinsic job conditions was significance. Finally, the relationship between participation in pay operations and satisfaction with extrinsic job conditions was significance. This finding demonstrates that participation in pay plans and participation in pay operations do not act as important predictors of employees' satisfaction with intrinsic job conditions. Conversely, participation in pay plans and participation in pay operations do act as important predictors of employees' satisfaction with extrinsic job conditions. Further, this research delivers discussion, implications and conclusion.

Keywords: participation in performance pay systems, intrinsic job satisfaction, extrinsic job satisfaction, SmartPLS

Introduction

Performance pay system (PPSM) is an important aspect of the total compensation program and has been a crucial function of modern human resource management system. It is planned and administered by human resource managers to reward employees based on performance, but not on the job structures (Ismail et al., 2015; Newman et al., 2016). Under a PPSM perspective, human resource managers will add variable pays such as pay rise, incentives and/or bonuses to the basic salary in order to appreciate employees' performances such as merit, skills, knowledge, competency and productivity (Aguinis, 2013; Anuar et al., 2014). PPSM can be effective if the program meets certain requirements including a culture that supports PPSM, effective and fair performance appraisals, adequate pay allocation, appropriate training for employees and on-going system evaluation (Ismail et al., 2011; Aguinis, 2013).

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PPSM is an important instrument to support organizational transformational strategy. For example, many organizations that operate in domestic, stable and less competition marketplace typically offer a traditional job-based pay, that is monetary and non-monetary payments are determined to employees based on tenure, seniority, length of service and job categories (Azman et al., 2014; Uieşi, S., 2016). When domestic and small-medium organizations have succeeded in their businesses, they have implemented structural and attitudinal transformations to become global and international organizations. In order to achieve the transformational strategy, employers have shifted their pay system paradigms from a job-based pay to performance-based pay. According to many scholars such as Milkovich, G.T., Newman, J.M. and Gerhart, B. (Milkovich et al., 2013; Anuar et. al., 2014; Uieşi, S., 2016) the main advantage of implementing the pay systems will strongly attract, retain and motivate competent employees to maintain and enhance their organizational competitiveness and performance in an era of global economy (Gerhart et al., 2009; Danish et al., 2010).

An analysis of the present literature relating to excellent organizations shows that how well PPSM is planned it will not be able to support its goals if management does not encourage employee participation in the pay systems (Anuar et. al., 2014; Uieşi, S, 2016). In a PPSM literature, participation in PPSM is generally practised in the two major forms: participation in pay plans (PPP) and participation in pay operations (PPO) (Anuar et al., 2014; Salim et al., 2016). PPP is broadly defined as management allows employees to involve in problem-solving activities related to PPSM (Milkovich et al., 2013; Anuar et al., 2014). Conversely, PPO is generally defined as management permits employees to involve integrating pay operations into a formal goal setting system on accurate and current job descriptions (Wainaina et al., 2014; Salim et al., 2016).

Interestingly, a careful investigation of creative compensation system studies mostly published in the 21st century disclosed that the competency of management to appropriately implement PPP and PPO in managing PPSM may positively influence employee behaviour, especially satisfaction with the job (Ismail et al., 2009; Anuar et al., 2014). In an organizational psychology perspective, satisfaction with the job (SWJ) is often viewed as employees are contended and fulfilling their desires and needs at work. SWJ are consists of satisfaction with intrinsic job conditions and satisfaction with extrinsic job conditions. Satisfaction with intrinsic job conditions (INJS) refers to employees have positive attitudes or pleasurable emotions toward internal job environments, such as the method of working, amount of responsibility, abilities to carry out work, suggestions, job variety and job security. While, satisfaction with extrinsic job conditions (EXJS) refers to employees have positive attitudes or pleasurable emotions toward external job environments, such as physical facilities, co-workers, recognition, industrial relation, management, promotion and working hours (Milkovich et al., 2014; Anuar et al., 2014; Salim et al., 2016). If employees perceived positive toward such job conditions, this perception may lead to an enhanced job satisfaction in organizations (Anuar et al., 2014; Salim et al., 2016).

Within a compensation administration model, many researchers think that PPP, PPO, INJS and EXJS have different meanings, but strongly interconnected constructs. For example, the competency of management to allow employees to participate in planning and operating PPSM may lead to higher employees' satisfaction with intrinsic and extrinsic job conditions (Francis et al., 2011; Milkovich et al., 2013). Even though this relationship has been widely investigated, the role of PPSM as an important predicting variable is ignored in the workplace compensation model (Anuar et. al., 2014; Uieşi, S., 2016). Many scholars dispute that this situation is due to several factors. First, numerous earlier researchers have largely described the conceptual definitions, purposes, types and significance of PPSM in organizations

(Wainaina et al., 2014; Salim et al., 2016). Second, many previous researches have utilized a simple association method to measure the degree and nature of the association between PPSM and SWJ (Ismail et al., 2011; Anuar et al., 2014). Third, various past researches have utilized a positivist paradigm, such as econometric based economics, finance and accounting methods to design performance pay reward models. Although this paradigm is useful, but it has not much emphasized the effect of employee participation in managing the PPSM on specific indicators of SWJ, namely INJS and EXJS (Milkovich et al., 2013; Anuar et al., 2014; Salim et al., 2016). As a result, outcomes from the above researches have only provided general findings and this may not sufficient to be used as useful recommendations by practitioners in understanding the complexity of PPSM concept and formulating strategic leadership styles that may help to maintain and support the organizational strategy and goals in an era of global competition (Wainaina et al., 2014; Salim et al., 2016). Therefore, this situation inspire the researchers to fill in the gap of literature by assessing the effect of PPSM on INJS and EXJS.

Objective

This research has two important objectives: first, is to assess the association between PPP and INJS. Second, is to assess the association between PPO and INJS. Third, is to assess the association between PPP and EXJS. Fourth, is to assess the association between PPO and EXJS.

The relationship between PPSM and employee behaviour is consistent with the main idea of workplace leadership theory. For example, House (1971) path-goal theory explains that employee participation in performing daily work is an important path to accomplish intended goals. While Graen (1976) role theory describes that employee participation in executing the daily job is an important job role to achieve planned outcomes. The main idea of these theories has received good support from the PPSM research literature. For example, several recent studies were conducted using a direct effects model to investigate employee participation in diverse organizational backgrounds, such as perceptions of 132 manufacturing firm operating in a free trade zone in East Malaysia (Ismail et al., 2011), 98 Indian business managers in India (Yadav & Rangnekar, 2015) and 22,547 subordinates from 48 European countries (Pacheco & Webber, 2016), These surveys advocated that the competency of management to properly implement participation styles in planning and operating PPSM had enhanced employees' SWJ, that are intrinsic and extrinsic job conditions in the respective organizations (Pacheco & Webber, 2016; Yadav & Rangnekar, 2015). Thus, the literature is used to establish a conceptual model for this research as exhibited in Figure 1.

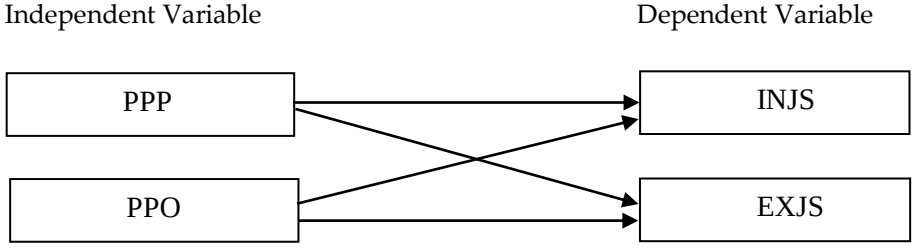

Fig. 1 Conceptual Model

There are four hypotheses established based on the framework.

H1: PPP is positively associated with INJS

H2: PPO is positively associated with INJS

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H3: PPP is positively associated with EXJS
H4: PPO is positively associated with EXJS

Methodology

A cross-sectional research design is extensively utilized in this study because it permits the researchers to gather data from the employee participation in PPSM literature and actual survey. This research design may assist the researchers to collect less bias data, accurate data and high-quality data (Creswell, 2014; Sekaran & Bougie, 2015). This research is done at disaster management agencies in West Malaysia. These institutions have implemented PPSM according to Malaysian Remuneration System which is effectively by 2002. PPSM is awarded to 8% of employees who have met the criterion of excellent employees. In order to enhance the effectiveness of this PPSM, management have encouraged managers and followers to involve in setting the target of annual works for each division or unit in the institutions. Even though the employee participation is implemented for 15 years ago, there is a very little empirical studies done to evaluate its effectiveness in the institutions. With the paucity of empirical evidences, need for conducting this research in imperative.

At the initial stage of this research, the content of survey questionnaire was drafted based on the PPSM literature. At the initial stage of this research, the semi-structured interview method was conducted involving four fire and rescue officers who had served more than 10 years in the organizations. Information from this interview method was used to understand the nature and features of participation in PPSM and SWJ, as well as relationship between such variables in the organizations. Next, the interviewed data was used to improve the content and format of the survey questionnaire for an actual research. Further, a back-translation technique was used to translate the questionnaire into Malay and English in order to improve the validity and reliability of research results (Creswell, 2014; Sekaran & Bougie, 2015).

The survey questionnaire consists of two major parts: first, PPP had 4 items and PPO had 4 items adapted from the PPSM related employee participation (Ismail *et al.*, 2011; Yadav & Rangnekar, 2015; Newman *et al.*, 2016; Pacheco & Webber, 2016). PPP is measured using the elements: discussion about types of reward, excellent service award and promotion. PPO is measured using the elements: asking questions and expressing opinions about PPSM practices, amount of performance pay, and pay level. Second, INJS had 3 items and EXJS had 5 items that were adopted from the Warr, Cook and Wall's (1979) SWJ scale. INJS is measured using the elements: method of working, suggestions, and variety of job. EXJS is measured using the elements: recognition and management style. All the items were evaluated using seven item scales began from "strongly disagree/dissatisfaction" (1) to "strongly agree/dissatisfaction" (7). The respondent characteristics are used as controlling variables because this study emphasized on employee perceptions.

A purposive sampling technique was used to distribute 200 survey questionnaires to employees in government-owned tertiary educational institutions in Peninsular Malaysia. This sampling technique used because of the institutions had not provided the list of employees to the researchers because of confidentiality reasons. This condition cannot allow the researchers to apply a random technique in selecting respondents. Of the number, 175 (87.5 percent) usable questionnaires were returned to the researchers. The participants answer the survey questionnaire based on their consent and a voluntary basis.

The SmartPLS package is chosen to analyse the survey questionnaire data because it may produce latent variable scores, solve small sample size issues and measure complex and simple research model (Henseler & Chin, 2010). The procedure of analysing survey questionnaire data is: first, confirmatory factor analysis is used to determine the validity and

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reliability of the instrument. Second, the structural model was assessed by examining the path coefficients using standardized betas (β) and t statistics (the significant level at $t > 1.65$, one tail testing). The value of R^2 is used to predict of the overall model strength based on the criteria: 0.26 (substantial effect), 0.13 (moderate effect), 0.02 (weak effect) (Cohen, 1988). Third, 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 & Sarstedt, 2017). Finally, predictive relevant of the survey questionnaire data is evaluated using Q^2. If the value of Q^2 is higher than zero, indicating that the survey questionnaire data have predictive relevant (Hair *et al.*, 2017).

Finding and Discussion

Table 1 presents that 81.5% of the respondents are males that are 25 to 34 years old (39.3%), SPM/MCE holders (75.1%), clerical and support staff (69.9%), and have monthly salary between RM2,500 and RM3,999 (50.3%) and married (72.8%).

Table 1 Respondents' Profile (n=175)

Sample Profile	Sub-Profile	Percentage
Gender	Male	81.5
	Female	18.5
Age (years)	< 25	10.4
	25 – 34	39.3
	35 – 44	28.3
	45 – 54	17.3
	> 55	4.6
Level of Education	SRP / LCE	2.9
	SPM / MCE	75.1
	STPM / HSC	8.7
	Diploma	8.1
	Degree	5.2
Position	Management & professional group	17.9
	Supervisory group	7.5
	Technical staff	2.9
	Clerical & support staff	69.9
	Other	1.7
Gross Income (Monthly/MYR)	< 1,000	3.5
	1,000 – 2,499	37.6
	2,500 – 3,999	50.3
	4,000 – 5,499	6.4
	5,500 – 6,999	2.3
Marital status	Single	27.2
	Married	72.8

Note:
SPM/ MCE –Sijil Pelajaran Malaysia/ Malaysia Certificate of Education
STPM/ HSC – Sijil Tinggi Pelajaran Malaysia/ High School Certificate

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Table 2 presents the outcomes convergent validity analysis for all constructs. The items that represent each construct were greater than 0.70, and these items had higher loadings than other items in different constructs. This result shows that items that represent each construct meet the criteria of convergent validity (Henseler & Chin, 2010). Moreover, the values of AVE in diagonal are greater than the squared correlation with other constructs in off-diagonal, indicating that all constructs have met the criteria of discriminant validity (Henseler & Chin, 2010).

Table 2 The Constructs' Factor and Cross Loadings Results

Constructs	Cross Factor Loadings				AVE
	1	2	3	4	
1. PPP	0.719 to 0.805				0.650
2. PPO		0.839 to 0.848			0.640
3. INJS			0.724 to 0.809		0.579
4. EXJS				0.840 to 0.953	0.713

Table 3 presents the outcomes of discriminant validity analysis for all constructs. All constructs had values of √ AVE in diagonal that were greater than the squared correlation with other constructs in off-diagonal, indicating that all constructs met the acceptable standard of discriminant validity (Henseler et al., 2010). While, the values of composite reliability for all constructs are greater than 0,80, indicating that the instrument has high internal consistency (Henseler & Chin, 2010; Nunally & Bernstein, 1994).

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Table 3 The Results of Discriminant and Convergent Validity Analysis

Constructs	AVE	1	2	3	4	Composite Reliability
PPP	0.650	**0.806**				0.881
PPO	0.640	0.437	**0.800**			0.877
INJS	0.579	0.278	0.463	**0.761**		0.873
EXJS	0.713	0.326	0.493	0.767	**0.844**	0.882

Table 4 presents the outcomes of variance inflation factor and descriptive statistics. All constructs had mean values from 5.2428 to 5.0983, indicating that the levels of PPP, PPO, INJS and EXJS are from high (4) to highest level (7). While, the values of variance inflation factor for the relationship between the independent variable (i.e., PPP and PPO) and the dependent variable (i.e., INJS and EXJS) are less than 5,0, indicating that all constructs are not affected by serious collinearity problem (Hair *et al.*, 2017). These results further confirm that the research instrument have met the criteria of validity and reliability analyses.

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Table 4 The Variance Inflation Factor Results and Descriptive Statistics

Constructs	Mean	Standard Deviation	Variance Inflation Factor	
			1	2
1. PPP	5.2428	.73454	1.236	1.236
2. PPO	4.8569	.70617	1.236	1.236
3. INJS	5.0983	.67051		
4. EXJS	5.0636	.66117		

Table 5 presents that the outcomes of testing the direct effects model. The inclusion of PPP and PPO in the analysis had explained 22 percent of the variance in INJS. This results shows that it had provided a medium support for the overall model (Hair *et al.*, 2017). Further, the results of testing the research hypotheses displayed two important findings: first, PPP was significantly associated with INJS (β=0.093; t=0.672), thus H1 was not supported. Second, PPO was significantly associated with INJS (β=0.136; t=1.412), thus H2 was not supported. This finding confirms that PPP and PPO are not important determinants of INJS.

Table 5 The Outcomes of Testing H1 and H2

Structural Path	Path Coefficient	T Statistics	R^2
H1: PPP → INJS	0.093	0.672	0.222
H2: PPO → INJS	0.136	1.412	

Note: Significant at * t >1.65

As an extension to the testing of the research hypotheses, tests for effect size (f^2), and predictive relevance (Q^2) were conducted using the Bootstrapping and Blindfolding procedures, respectively. The results Bootstrapping show that the relationship between PPP and INJS had an f^2 value of 0.009, which is in between 0.02 and 0.15, indicating that PPP has a low effect on INJS (Hair et al., 2017). While, the relationship between PPO and INJS had an f^2 value of 0.020, which is in between 0.02 and 0.35, indicating that PPO has a weak effect on INJS (Hair et al., 2017). In regards to predictive relevance, the results show that the value of Q^2 for INJS was 0.102, which is greater than zero for the reflective endogenous latent variable. The result has predictive relevance (Hair et al., 2017).

Table 6 presents that the outcomes of testing the direct effects model. The inclusion of PPP and PPO in the analysis had explained 26 percent of the variance in EXJS. This results shows that it had provided a substantial support for the overall model (Hair *et al.*, 2017). Further, the results of testing the research hypotheses displayed two important findings: first, PPP was significantly associated with EXJS (β=0.422; t=5.007), thus H3 was supported. Second, PPO was significantly associated with EXJS (β=0.434; t=5.626), thus H4 was supported. This finding confirms that PPP and PPO are important determinants of EXJS.

Table 6 The Outcomes of Testing H3 and H4

Structural Path	Path Coefficient	T Statistics	R^2
H3: PPP → EXJS	0.422	5.007	0.256
H4: PPO → EXJS	0.434	5.626	

Note: Significant at * t >1.65

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As an extension to the testing of the research hypotheses, tests for effect size (f^2), and predictive relevance (Q^2) were conducted using the Bootstrapping and Blindfolding procedures, respectively. The results Bootstrapping show that the relationship between PPP and EXJS had an f^2 value of 0.185, which is in between 0.15 and 0.35, indicating that PPP has a medium effect on EXJS (Hair et al., 2017). Conversely, the relationship between PPO and EXJS had an f^2 value of 0.205, which is in between 0.15 and 0.35, indicating that PPO has a medium effect on EXJS (Hair et al., 2017). In regards to predictive relevance, the results show that the value of Q^2 for EXJS was 0.168, which is greater than zero for the reflective endogenous latent variable. The result has predictive relevance (Hair et al., 2017).

The findings of this research demonstrate that PPP and PPO are not important determinants of INJS, while PPP and PPO are important determinants of EXJS. In the context of this study, management has actively encouraged employees who work in different hierarchies and categories to support the PPSM policies and rules established by its stakeholders. The majority participants view that the levels of PPP, PPO, INJS and EXJS are high. This condition reveals that the implementation of PPP and PPO may not enhance INJS, but implementation of PPP and PPO may enhance EXJS in the organizations.

This research offers three important implications: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this research are consistent with the main idea of House's (1971) path-goal theory and Graen's (1976) role theory, which reveal that the competency of management to actively stimulate employees who work in different job levels and classifications to participate in planning and operating PPSM may lead to an enhanced employees' satisfaction with extrinsic job condition (Anuar et al., 2014; Ismail et al., 2014; Salim et al., 2016). Conversely, the implementation of PPP and PPO in planning and operating PPSM may not enhance INJS. A careful review of the semi-structured interview outcomes shows that this finding may be affected by external factors. First, respondents of this research have perceived pay rises are breadwinner in their lives and more important than participation in planning and operating PPSM. If management upgrade their pay rises this will improve their standard of living and thus, may lead to an increased SWJ in organizations. Second, respondents of this research viewed that participation in planning and operating PPSM widely done at all levels within the organizations, but impact of such participation in improving the type, level and/level of pay for higher performers are worth as compared with their contributions. These factors may reduce the ability of PPP and PPO in enhancing employees' satisfaction with INJS in the organizations.

Concerning on the robustness of research methodology, the survey questionnaire data used in this research have met the criteria of validity and reliability analyses. This condition may lead to produced accurate and reliable research outcomes. Hence, with respect to practical contribution, the findings of this research can be used as important recommendations by practitioners to improve the management of PPSM in organizations. This objective may be achieved if management considers the following dimensions: first, high performers should be given higher rewards than average and non-performers in order to motivate them continuously performing their job targets. Second, performance appraisal feedback should be used to improve the weaknesses of employees and suggest corrective actions in order to guide them to improve their career paths. Finally, supportive leadership style should be promoted in order strengthen good rapport and warm relationship between management and staff association. This situation will upgrade participative decision making style in managing PPSM and this practice may lead to enhanced employees' understanding and decrease their prejudices, as well as upgraded the credibility of PPSM. If these

suggestions are given more attention this may stimulate employees to support the PPSM goals.

Conclusion and Suggestion

This research confirms that PPP and PPO are important determinants of EXJS in the studied organizations. This result also is consistent with and has broadened the PPSM literature mostly published in Western countries. On the contrary, PPP and PPO are not important determinants of INJS in the studied organizations. This result may be caused by two important external factors: first, employees feel that their breadwinners are pay rises, not the process of managing PPSM. Second, the impact of PPP and PPO on the improvement of the type, level and/or amount of pay for higher performers are worth as compared with their contributions.

Therefore, current research and practice within workplace compensation system need to represent PPP and PPO as thrust dimensions of the PPSM domain. This research further proposes that the competency of management to appropriately implement employee PPP and PPO will strongly enhance subsequent positive employee outcomes (e.g., fairness, commitment, ethics and motivation). Thus, these positive outcomes may lead to maintaining and supporting the organizational strategy and goals in an era of the global economy.

This research offers several suggestions in order to improve the methodological and conceptual limitations of the future study. First, several potential participant features such as gender, age, education and position should be considered because the similarities and differences among these variables may indirectly affect the effectiveness of employee participation in PPSM. Second, future research should examine the relationship between specific elements for the independent variable and the dependent variable in order to get better results. Third, other elements of employee outcomes, such as organizational commitment and job motivation need to be used because they are widely acknowledged in considerable PPSM literature. Finally, the number of the sample should be increased in order to represent the studied population and this may reduce response bias in survey method. The importance of these suggestions can be used to strengthen future research.

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