



The Mediating Effects of Organizational Justice in Determining the Relationship between Performance-Based Pay and Employees' Turnover Intention

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ABSTRACT

This is a study on employees' perception of justice towards performance-based pay and the effect of these perceptions on their turnover intention. This study aims to examine the mediating role played by distributive and procedural justice in linking pay distribution and pay procedure of performance-based pay to employees' turnover intention. A review of past literature in this particular area has prompted the researchers to narrow the gaps in previous studies. Towards that, this study utilized questionnaires which were administered among 50 non-managerial employees currently working in a private company located in Kuching, Sarawak, East Malaysia. Data analysis was done using Statistical Package for Social Sciences (SPSS), Version 20.0. Pearson Correlation and Stepwise Regression were used to examine the relationship between the variables. The outcomes of Stepwise Regression revealed that distributive justice fully mediated the relationship between pay distribution and employees' turnover intention in contrast to procedural justice which did not have a significant impact in the relationship. The findings of this study are useful references for organisation management of the pay system to improve employees' performance.

Keywords: employees' turnover intention; organizational justice; performance-based pay

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INTRODUCTION

In today's business environment, employees' turnover is becoming a serious issue in organizations especially in the field of human resource management, yet it is common in every type and size of organization and at every organizational level (Chan, Yeoh, Lim, & Osman, 2010). Generally, employees' turnover exists when employees resign from their job and they

must be replaced (Samuel & Chipunza, 2009) with the consequences of the performance appraisal exercise having direct or indirect impact on employees' behaviour at the workplace. The performance appraisal process has both positive and negative consequences in determining workers' job commitment, attitudes, ways of thinking, turnover intention and other related aspects in their career path. Performance-based pay has gained attention as a new trend in recent years with the linking of workplace reform and enterprise bargaining (Issac, 2001). Based on Kelly's survey (2013), the rates of performance-based pay recorded in Malaysia was 72% while 67% of the respondents proposed that pay should be linked to productivity. This reflects a widespread recognition of organisations towards individuals who tend to perform well if their interests are aligned to the pay system and many employees clearly believe in their ability to perform their jobs well. They want to be rewarded for their efforts and contributions. According to Salaman, Storey, and Billsberry (2005), performance-based pay system typically involves linking pay to performance which is measured by the achievement and contribution of an individual. This system can create a win-win situation, in which employees gain from the opportunity to perform better thus increasing their earnings while the employers gain benefit from increased productivity and a more engaged workforce (Kelly, 2013).

BACKGROUND OF THE STUDY

In past studies, researchers emphasized the impact of performance-based pay on work outcomes. They advocated that performance-based pay schemes were positively significant to work outcomes such as productivity and quality of work (Lazear, 1996; Lindanauer et al., 2007) and claimed

that performance-based pay can attract and retain the high potential employees as well as motivate them to increase and maintain productivity (Booth & Frank, 1999; Leritz, 2012). They believed that if every employee is rewarded with similar pay rise, then there is a risk of those high performing employees leaving the organization with intent.

On the other hand, numerous studies have also found that performance-based pay systems have limited motivational effect due to the concerns of employees regarding the fairness of the system (Boachie-Mensah & Doghe, 2011; Campbell, Campbell, & Chia, 1998; O'Donnell & O'Brien, 2000; Olusegun, 2012). They argued that performance-based pay underemphasized the effects of attribution biases on performance judgments which affect the effectiveness of the system. These studies showed that biased judgments in performance appraisals can influence the work motivation of employees which in turn significantly affects turnover intention (Olusegun, 2012; Sameul & Chipunza, 2009).

At the same time, some empirical findings revealed that organizational justice in performance appraisal has significant positive outcomes such as increased work motivation, job satisfaction and work commitment. Organizational justice is a significant body of study on work motivation in commitment to an ethical principle of fairness (Gilliland & Chan, 2001; Latham & Pinder, 2005). Choong, Wong, and Tioh (2010) found positive outcomes in increased job satisfaction, organizational commitment and reduced turnover intention in employees who perceived the performance appraisal system as having a high level of fairness in determining their performance outcomes. In short, employees are more contented if they feel they are fairly rewarded for their efforts in the