

Administrator's Role in Performance Pay System as a Determinant of Job Satisfaction

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Abstract

The purpose of this study is to examine the relationship between administrator's role in pay performance system and job satisfaction. A survey method was employed to gather 299 self-administered questionnaires from employees who work in Malaysian private institutions of higher learning in Peninsular Malaysia. The outcomes of the stepwise regression analysis showed two important findings: first, pay participation positively and significantly correlated with job satisfaction. Second, pay allocation significantly correlated with job satisfaction. This result demonstrates that the capability of administrators to appropriately plan and implement pay for performance system has been an essential determinant of job satisfaction in the studied organizations. In addition, this study provides discussion, implications and conclusion.

Keywords: Pay participation; pay allocation; job satisfaction

Abstrak

Kajian ini dilaksanakan untuk mengukur hubungan di antara peranan pentadbir dalam sistem ganjaran dan kepuasan kerja. Kajian kaji selidik telah digunakan untuk mengumpul 299 borang soal selidik yang lengkap daripada pekerja Kementerian Pengajian Tinggi di Semenanjung Malaysia. Keputusan pengujian hipotesis kajian menggunakan analisis Regresi Hierarki menunjukkan dua penemuan penting: pertama, interaksi di antara penyertaan dalam pembayaran sistem ganjaran mempunyai hubungan yang signifikan dengan kepuasan kerja. Kedua, interaksi di antara peruntukan dalam pembayaran sistem ganjaran mempunyai hubungan yang signifikan dengan kepuasan kerja. Dapatan kajian mengesahkan bahawa keupayaan pentadbir dalam merancang dan melaksanakan sistem ganjaran dengan sewajarnya menjadi penentu penting dalam mencapai kepuasan kerja para pekerja di organisasi kajian. Selanjutnya, perbincangan, implikasi dan kesimpulan kajian turut diuraikan.

Kata kunci: Penyertaan pembayaran; peruntukan pembayaran; kepuasan kerja

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1.0 INTRODUCTION

In a human capital management perspective, compensation is regularly viewed as an employer designs and administers pay for jobs and pay for performance with the purpose of reward its employees who perform service and/or job in organizations (Henderson, 2009; McShane and VonGlinow, 2005). Pay for job is also known as a membership and seniority based rewards where an employer gives the type, level and/or amount of monetary and non-monetary payments depended on the merit of job (e.g., pay rates are allocated according to employees' skills, efforts, responsibilities, and job conditions) (McShane and VonGlinow, 2005, Bergmann and Scarpello, 2002; Milkovich and Newman, 2009). For example, the types of payment for job that are usually implemented in organizations are membership based pay, time based pay and tenure based pay. Implementation of such payment systems, even though may remain to be appropriate and applicable in established and highly predictable business conditions (Wilton, 2010; Mahoney, 1992; Henemen, Ledford and Gresham, 2000) is gradually known as insufficient to attract, retain and motivate competent employees to increase organizational performance (Bergmann and Scarpello, 2002).

In a global economy, many employers have shifted the perceptions of compensation program from a pay for a job to pay for performance in order to achieve their organizational strategy and goals (Henemen, Ledford and Gresham, 2000; Lawler, 2000). Pay for performance is also viewed as a person based pay where an employer sets 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; Blau and Kahn, 2003). This new payment system has two major types: pay for group performance (gain-sharing and team based pay) and pay for individual performance (e.g., merit pay, lump sum bonus, promotion based incentives and variable pay) (Milkovich and Newman, 2009). However, pay for performance has different types, they still use the similar criterion to allocate pays, which is when an employer rewards additional pays to the basic pay in order to achieve high performers' needs and expectations (Lawler, 2000; Chang and Hahn, 2006; Lee, Law and Bobko, 1999). Under this pay system, the rules for distributing rewards, the volatility 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 attribute of their job structure (Lee, Law and Bobko, 1999; Amuedo-Dorantes and Mach, 2003; Appelbaum and Mackenzie, 1966).

The main advantage of implementing pay for performance will attract, retain and motivate employees to reach the major objectives of the organizational performance pay system: efficiency (i.e., improving performance, labor costs, and customers quality), equity (i.e., fair pay treatment for employees through appreciation of employee contributions and employees' needs) and compliance with laws and regulations (Gomez-Mejia and Balkin, 1992a; Gomez-Mejia and Balkin, 1992b). Hence, it may lead to sustained and increased organizational competitiveness in a dynamic marketplace (Lawler, 2000; Appelbaum and Mackenzie, 1966; Beardwell and Claydon, 2007).

A review of recent organizational compensation program highlights that many administrators have played two important roles in planning and implementing pay for performance system, which is pay participation and pay allocation (Lee, Law and Bobko, 1999; Brown, Hyatt and Benson, 2010; Fay and Thompson, 2001; Ismail, Hock and Muhammed, 2007). According to a high commitment human resource management practice, pay participation is often seen as an employer encourages employees in different hierarchical levels and categories to discuss and contribute to decision-making, information-processing and/or problem-solving activities related to pay design (e.g., start-up stages of pay system) and pay administration (e.g., operation stages of pay system) (Ismail, Hock and Muhammed, 2007; Belfield and Marsden, 2003; Kim 1996; Kim 1999). Then, participation in the design of pay system refers to employees who are given more opportunity to provide ideas in establishing pay systems to reach the most important goals of its system, stakeholders need and/or organizational strategy (Gomez-Mejia and Balkin, 1992a; Gomez-Mejia and Balkin, 1992b; Lawler, Ledford and Chang, 1993).

In addition, participation in the administration of performance pay system refers to employee participation in both input and output. Participation in input means employees provide recommendation to resolve the enterprise's goals, methods and resources. Participation by output means employees are allowed to share the organization's rewards in profitability and/or the achievement of productivity objectives (Kim, 1996; Kim, 1999; Coyle-Shapiro, Morrow, Richardson and Dunn, 2002). The ability of management to involve employees in performance pay system may obtain productive recommendations in performance pay system (e.g., merit pay and gain-sharing plans) and this action will encourage them to be honest in making personal contributions to their organizations (Giacobbe-Miller, Miller and Victorov, 1998; Mani, 2002).

Most scholars often construe pay allocation from organizational, individual and cultural perspectives. In terms of cultural perspective, an individualistic culture perceives pay allocation based on employee performance as equity (e.g., equitable or inequitable pay) whereas a collective culture perceives pay allocation based on the job as equality, pay for the duration of service or seniority and pay for individual requirements (Giacobbe-Miller, Miller and Victorov, 1998; Money and Graham, 1999). In organizations, pay allocation is broadly interpreted as the type, level and/or amount of pay which is provided by an employer to its employee who works in varies job groups depend on the organizational policy and procedures (Milkovich and Newman, 2009). While, from an individual perspective, pay allocation is often described based on a social comparison theory, which posits that an individual perceives the adequacy of the type, level and/or amount of pay according to a comparison between what he/she receives and what he/she expects. Then, an individual will perceive the type, level and/or amount of pay as adequate if he/she views that the pays are given equitable with his/her contribution (e.g., ability to perform job, merit, skills and/or performance) (Adams, 1963; Adams, 1965; Skarlicki and Folger, 1997; Sweeney and McFarlin, 1992).

Surprisingly, present research in organizational pay system reveals that the capability of administrators to properly perform pay for performance system may have a significant effect on individual attitudes and behavior, primarily job satisfaction (Brown, Hyatt and Benson, 2010; Heywood and Wei, 2006; McCausland, Pouliakas and Theodossiou, 2005). According to an organizational behaviour perspective, job satisfaction is often seen as a result of employees' perception or appraisal of their jobs (McShane and VonGlinow, 2005). If employees have experienced high satisfaction with their job, this may create a pleasurable or emotional state (Bartolo and Furlonger, 1999; Locke, 1976) and a positive response in the organizations (Oshagbemi, 2000).

Within an organizational pay model, many scholars view that pay participation, pay allocation and job satisfaction are different, but highly interrelated concepts. For example, the ability of administrators to appropriately use pay participation systems and adequately allocated the type, level and/or amount of pay based on employees' performance may lead to an enhanced job satisfaction (Ismail, Hock and Muhammed, 2007; McCausland, Pouliakas and Theodossiou, 2005; Pettijohn, Pettijohn and d'Amico, 2001). Even though the nature of this relationship is significant, little is discussed about the role of administrators in planning and implementing pay for performance system as an important predicting variable in the workplace pay system research literature (Ismail, Hock and Muhammed, 2007; Adams, 1963; Adams, 1965).

Many scholars argue that the effectiveness of performance pay system is given little attention in the previous studies because they have much discussed the characteristics of the administration of performance pay system, employed a simple association method to analyze the correlation between certain features of the administration of performance pay system and general individual attitudes and behavior, and ignored to measure the effect size of the administration of performance pay system towards specific individual attitudes and behavior. Consequently, these studies have not adequately provided useful recommendations to be used by practitioners in understanding the complexity of the administration of pay for performance system, and formulating strategic action plans that can be applied to improve the effectiveness of the administration of performance pay system in high competitive organizations (Ismail, Hock and Muhammed, 2007; Money and Graham, 1999).

1.1 Objective of the Study

This study has two important objectives: first, is to measure the relationship between pay participation and job satisfaction. Secondly, is to measure the relationship between pay allocation and job satisfaction.

■2.0 LITERATURE REVIEW

2.1 Relationship between Pay Participation and Job Satisfaction

Relationship between pay participation and job satisfaction is consistent with the notion of (Vroom, 1964) expectancy theory which explains that an individual will perform to behave in a certain way if he/she understands the value of the outcomes. The idea of this theory gained strong support from pay participation research literature. For example, several recent studies using a direct effects model to investigate pay participation based on different samples, such as 115 sales people (Pettijohn, Pettijohn and d'Amico, 2001) faculty members in institutions of higher education (Terpstra and Honoree, 2009) and public servants in US public agencies (Boardman and Sundquist, 2011). These studies found that the ability of administrators to actively involve employees in pay decisions had provided more opportunities for employees to determine pay rates based on performance had increased job satisfaction in the organization (Pettijohn, Pettijohn and d'Amico, 2001; Terpstra and Honoree, 2009; C.Boardman and Sundquist, 2011).

2.2 Relationship between Pay Allocation and Job Satisfaction

Relationship between pay allocation and job satisfaction is consistent with the notion of (Lawler, 1971) discrepancy theory which posit that determination of pays equally with employee's expectation (e.g., contribution/effort). The meaning of this theory gained strong support from pay allocation research literature. For example, few imperative studies that used a direct effects model to examine pay allocation based on varies samples conducted in US organizational settings like 150 employees in mid-Atlantic insurance companies (Schappe, 1998) and U.S. group (153 sales representatives and 146 sales managers) and Japanese group (175 of sales representatives and 93 sales managers) (Money and Graham, 1999). The outcomes of these studies showed that the ability of managers to provide adequate the type, level and/or amount of pay based on merit, skills and/or performance had increased employees' feelings of job satisfaction in the organizations (Ismail, Hock and Muhammed, 2007; Money and Graham, 1999).

2.3 Conceptual Framework and Research Hypothesis

The literature has been used as foundation to propose a conceptual framework for this study as illustrated in Figure 1.

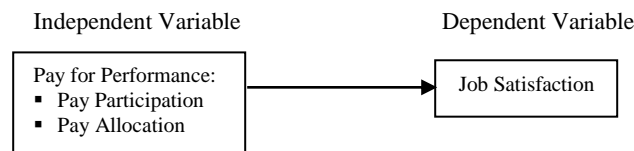


Figure 1 Conceptual framework

Based on the framework, it can be hypothesized that:

H1: There is a positive relationship between pay participation and job satisfaction

H2: There is a positive relationship between pay allocation and job satisfaction

■3.0 METHODOLOGY

3.1 Research Design

This study employed a cross-sectional research design which allowed the researchers to integrate the pay for performance literature, the pilot study and the real survey as a main procedure to collect data. Using such methods may help the researchers gather accurate data, decrease bias and increase quality of data being collected (Ismail, Hock and Muhammed, 2007; Cresswell, 1998; Sekaran, 2003). This study was conducted in Malaysian private higher education institutions in Peninsular Malaysia. At the early stage of this study, a survey questionnaire was drafted based on the administration of performance pay system literature. Next, a pilot study carried out by discussing the questionnaire with twenty experienced academicians and non-academicians who have worked in higher education institutions in Malaysia. Their opinion was requested to verify the content and format of the study questionnaire for a real study. Hence, a retranslation technique was employed to translate the survey questionnaires into English and Malay versions in order to increase the validity and reliability of research findings (Cresswell, 1998; Sekaran, 2003).

3.2 Measures

The survey questionnaires used in this study have three parts. First, pay participation had 4 items that were adapted from pay administration literature (Pettijohn, Pettijohn and d'Amico, 2001; Milkovich and Newman, 2009; Greenberg, 2003). Second, pay allocation had 3 items have been adapted from pay management literature (Milkovich and Newman, 2009; Gomez-Mejia and Balkin, 1992a; Gomez-Mejia and Balkin, 1992b). Lastly, job satisfaction had 6 items that were adapted from the job satisfaction literature (Oldham, Hackman and Pearce, 1976; Warr, Cook and Wall, 1979). The measurement used was 7-item scale ranging from "strongly disagree/dissatisfied" (1) to "strongly agree/satisfied" (7) for all items in the questionnaires. Demographic variables (i.e., gender, age, and race, and status, length of service, salary and position) were used as control variables because this study emphasizes on employee attitudes.

3.3 Sample

The researchers have acquired an official approval to carry out the study of the head of the target organization as well as received advice from the specific authority about the procedures for conducting the survey in the studied organization. After taking into account the organizational rules, as well as duration of study and financial constraints. Then, the technique of convenient sampling was used to distribute 1800 survey questionnaires to employees which are ready to participate in each department within the organizations. Since, the list of registered employees was not given to the researchers, the sampling technique was selected and this situation did not allow the researchers to use random technique in choosing respondents for this study. From the number, 331 usable questionnaires were returned to the researchers, yielding 18.4% percent of the response rate. The survey questionnaires were answered by participants based on their consents and on a voluntary basis.

3.4 Data Analysis

The SmartPLS 2.0 was employed to assess the validity and reliability of the instrument and thus test the research hypotheses (Henseler *et al.*, 2010, Ringle *et al.*, 2010). The main advantage of using this method 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 *et al.*, 2010, Ringle *et al.*, 2010). The SmartPLS path model was employed to assess the path coefficients for the structural model using the standardized beta (β) and t statistics. Baron and Kenny (1986) suggest that a mediating variable can be clearly shown in the path model when a previously significant effect of predictor variables is reduced to non-significance or reduced in terms of effect size after the inclusion of mediator variables into the analysis. The value of R^2 is used as an indicator of the overall predictive strength of the model. The value of R^2 is considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Henseler *et al.*, 2010; Chin, 2001). Thus, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels *et al.*, (2009) 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 supports the PLS path model globally (Wetzels *et al.*, (2009).

4.0 RESULTS

4.1 Respondents' Characteristics

In term of respondents' characteristics, the majority of respondents were females (57.2%), ages between 26 to 30 years old (47.8%), bachelor holders (47.8%), lecturers and assistant lecturers (54.2%), working in academic divisions (78.6%), working experiences from 3 to 5 years (42.1%), and monthly salary between RM1000 to 2000 (56.9%).

4.2 Validity and Reliability of the Instrument

Table 1 shows the results of convergent and discriminant validity analyses. All concepts had the values of AVE larger than 0.5, indicating that they met the acceptable standard of convergent validity (Henseler *et al.*, 2010, Barclay, Higgins and Thompson, 1995; Fornell and Larcker, 1981). 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 *et al.*, 2010; Yang, 1998).

Table 1 The results of convergent and discriminant validity analyses

Variable	AVE	Pay Participation	Pay Allocation	Job Satisfaction
Participation in Pay Systems	0.679423	0.824271		
Pay Allocation	0.735688	0.467231	0.857723	
Job Satisfaction	0.660901	0.534194	0.573075	0.812958

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, as well as the loadings of variables were greater than 0.7 in their own constructs in the model are considered adequate (Henseler *et al.*, 2010). Overall, the validity of the measurement model met the criteria.

Table 2 The results of factor loadings and cross loadings for different constructs

Construct/ Item	Pay Participation	Pay Allocation	Job Satisfaction
<u>Pay</u>			
<u>Participation</u>			
Part 1	0.793923		
Part 2	0.810062		
Part 3	0.860198		
Part 4	0.923234		
<u>Pay Allocation</u>			
All 1		0.873721	
All 2		0.912953	
All 3		0.857168	
<u>Job</u>			
<u>Satisfaction</u>			
JS 1			0.786154
JS 2			0.900467
JS 3			0.862152
JS 4			0.867915
JS 5			0.888768
JS 6			0.815344

Table 3 shows the results of reliability analysis for the instrument. The values of composite reliability and Cronbach’s Alpha were greater than 0.8, indicating that the instrument used in this study had high internal consistency (Henseler *et al.*, 2010; Nunally and Bernstein, 1994).

Table 3 Composite reliability and Cronbach’s Alpha

Construct	Composite Reliability	Cronbach Alpha
Pay Participation	0.910987	0.868810
Pay Allocation	0.912723	0.856849
Job Satisfaction	0.941821	0.925777

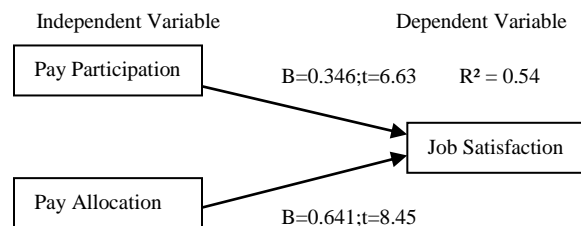
Note: Significant at **p<0.01

4.3 Analysis of the Constructs

Table 3 shows the results of Pearson correlation analysis and descriptive statistics. The means for all variables were from 4.0 to 4.3, signifying that the level of communication about performance based reward, participation in performance based reward, interactional justice, and job satisfaction are ranging from high (3.0) to the highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., communication and participation) and the dependent variable (i.e., job satisfaction) were less than 0.90, indicating the data were not affected by serious collinearity problem (Hair, Anderson, Tatham and Black, 2006). Hence, the reliability values for the constructs were 1.0, showing 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 (Hair, Anderson, Tatham and Black, 2006; Nunally and Bernstein, 1994).

4.4 Outcomes of Testing Hypotheses 1 and 2

Figure 2 presents the outcomes of testing a mediating model using SmartPLS. It shows that the inclusion of pay participation and pay allocation in the analysis had explained 18.4% percent of the variance in the dependent variable. Specifically, the result of SmartPLS path analysis revealed two significant results: first, pay participation is positively and significantly correlated with job satisfaction ($\beta=0.346$; $t=6.63$), therefore H1 was supported. Second, pay allocation positively and significantly correlated with job satisfaction ($\beta=0.641$; $t=8.45$), therefore H2 was supported. In sum, the result confirms that the administration of performance based reward as an important predictor of job satisfaction in the hypothesized model.



Note: Significant at *t>1.96

Figure 2 The outcomes of SmartPLS path model showing the relationship between the administrator’s role in performance pay system and job satisfaction

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels *et al.* (2009) guideline as follows: $GoF = \sqrt{\{MEAN(\text{Communality of Endogenous}) \times MEAN(R^2)\}} = 0.54$ indicating that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result confirms that the PLS path model has better explaining power in comparison with the baseline values (GoF small=0.1, GoF medium=0.25, GoF large=0.36). It also provides strong support to validate the PLS model globally (Wetzels, Kneib, Woloshynowych, Moorthy and Darsy, 2006).

■ 5.0 DISCUSSION

The results of this study confirm that the administrator's role in performance pay system does act as an important determinant of job satisfaction in the studied organizations. In the context of this study, managers often use compensation policy and rules set up by the stakeholder to plan and implement performance pay system in the organizations. Majority respondents view that the levels of pay participation, pay allocation and job satisfaction are high. This situation describes that the ability of administrators to actively involve employees in making pay decisions, and adequately provide the type, level and/or amount of pay based on employee performance may lead to an enhanced job satisfaction in the organizations.

The implications of this study can be divided into three categories: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study highlight two major issues: firstly, pay participation has been an important determinant of job satisfaction. This result is consistent with studies by Coyle-Shapiro, Morrow, Richardson and Dunn (2002). Secondly, pay allocation has been an important determinant of job satisfaction. This result is consistent with studies by Eaton (1994). In conclusion, this study has provided great potential for understanding the influence of the administrator's role in performance pay system in the compensation management models of the studied organizations and this result has also supported and extended previous studies mostly conducted in Western countries.

In respect of the robustness of the methodology of the study, a questionnaire used in this study meets the requirements of validity and reliability analysis; this could guide to producing accurate and reliable research findings. While the practical contributions, the findings of this study can be implemented to improve the administration of pay for performance systems in organizations. The improvement efforts can be implemented in the following aspects:

Firstly, review the additional rewards for high performers in accordance with the current national cost of living standards and organizational changes. For example, the willingness of employers to give additional rewards will increase the positive perception of employee because is considered able to meet their expectations, standards of living and statuses in society. Secondly, the type, level and/or amount of pay for performance merit should be improved in order to attract, retain and motivate high performing employees continuously support their organizational goals and strategy. As a result, it could motivate them to reach organizational goals. Finally, enhancing the content and methods of management development programs is in accordance with the current requirements of the organization. For example, the ability of employers to focus more on the creative skills (for example, stimulates the 'intellectual in doing the job, respects employees' voices, encourage the employees to increase their potential to reach a better career, learn new problem-solving strategies and shared the organization interests) could enhance the ability of managers to practice comfortable interaction styles for the resolution of complaints and demands employees.

■ 6.0 CONCLUSION

This study proposed a conceptual framework based on the administration of performance pay system research literature. The instrument used in this study met the acceptable requirements of validity and reliability analyses. The outcomes of stepwise regression analysis confirmed that the administrator's role in performance pay system (i.e., pay participation and pay allocation) significantly correlated with job satisfaction, therefore H1 and H2 were fully supported. This result also has supported and broadened performance pay system literature mostly published in Western countries. Therefore, current research and practice within the workplace pay model needs to consider pay participation and pay allocation as key elements of the performance pay domain. This study further suggests that the ability of administrators (e.g., managers and/or supervisors) to actively involve employees in making pay decisions and adequately determine the type, level and/or amount of pay based on employees' performance will strongly induce positive subsequent attitudinal and behavioral outcomes (e.g., commitment, engagement, performance, trust, fairness and pro social behavior). Further, these positive impacts could lead to maintain and achieve organizational performance in a global knowledge-based economy.

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