

## ADMINISTRATION OF REWARD FOR INDIVIDUAL PERFORMANCE AS A PREDICTOR OF ORGANIZATIONAL COMMITMENT

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### ABSTRACT

*This study was done to assess the correlation between administration of reward for individual performance and organizational commitment. A quantitative survey method was employed to collect data from employees at fire and rescue organizations in Malaysia. The results of SmartPLS path model analysis revealed that administration of reward for individual performance was positively and significantly correlated with organizational commitment. In sum, this result demonstrates that the competency of administrators to appropriately implement communication, participation and performance appraisal in managing reward for individual performance may lead to an enhanced organizational commitment in the organizational sample. The paper provides discussion, implications and conclusion.*

**Keywords:** Communication, Participation, Performance appraisal, Organizational commitment, SmartPLS

**JEL:** M10, M12, L8

### 1. INTRODUCTION

In an era of global economy and borderless world, many organizations have struggled to maintain and enhance their competitiveness and performance. Therefore, in order to achieve this goal, many employers have taken proactive actions to shift their compensation management paradigms from a traditional reward for job to reward for individual performance as a means to support their organizational strategies and goals (Anuar et al., 2014; Salim et al., 2015). Reward for individual performance is offered to high performing employees in several forms such as merit pay, lump-sum bonuses and incentive plan (Auh & Menguc, 2013; Day et al., 2014;

Osterloh, 2014). These reward systems use performance criteria (e.g., merit, knowledge, skill, competency and/or productivity) as the award bases to provide extra rewards besides permanent basic salary to high performing employees in organizations (Azman et al., 2014; Newman et al., 2016). Many scholars state that the implementation of reward for individual performance will enhance high performers' feelings of recognitions and this could attract, retain and motivate high performers them to support the ultimate goals of compensation program (e.g., efficiency, fairness, compliance with law and regulation, as well as ethics) (Newman et al., 2016, Martocchio, 2015).

A review of the recent literature pertaining to organizational effectiveness shows that competent administrators are the prime mover to determine the success of reward for individual performance. In managing the reward system, competent administrators normally emphasize on three major practices: communication, participation and performance appraisal (Anuar et al., 2014; Salim et al., 2015). In a performance based reward system, communication is broadly defined as two way communication where an employer delivers the information about reward for individual performance to employees and is also willing to receive useful inputs (e.g., suggestions and feedback) from its employees. This communication style will clearly disclose the compensation package quantitatively and qualitatively, convey accurate information about reward and performance relationships, allow voice in the system and improve the ability to understand, and perceive equity and fair treatment in the system. As a result, the integrity is enhanced (Azman et al., 2014; Newman et al., 2016; Salim et al., 2015).

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While participation is often interpreted as employers' encouragement towards employees who work at different job levels and categories to involve in decision-making, information-processing and/or problem-solving activities are related to the startup and operating systems. This participation style may strongly encourage the management and employees to cooperate in the establishment of reward for individual performance and advocate them to be honest in making personal contributions to their organizations (Newman et al., 2016; Salim et al., 2015; Shaed et al., 2015).

Furthermore, performance appraisal is generally defined as a cyclical process in which employers design formal evaluation methods to evaluate employees' performance based on the cognitive principle. For example, many organizations design formal evaluation in several formats such as ranking and rating employee performance in organizations. The use of these evaluation formats can help management to determine the type, level, and/or amount of reward according to individual performance ratings in organizations (Newman et al., 2016, Salim et al., 2015).

Interestingly, extant studies about reward for individual performance in Western and non-Western countries reveal that the competency of administrators to appropriately plan and implement communication, participation and performance appraisal in allocating rewards based on performance criteria may have a significant impact on employee outcomes, especially organizational commitment (Anuar et al., 2014; Newman et al., 2016; Salim et al., 2015). In an organizational behavior perspective, organizational commitment is broadly interpreted according to three major dimensions. First, affective commitment is often defined as an employee's emotional attachment to, involvement in, and identification with an organization (Meyer, 1991; McShane and Glinow, 2015). Second, continuance commitment is when an employee wants to remain a member of an organization because of the awareness of the costs associated with leaving it (Meyer, 1991;

Colquitt, 2013). Third, normative commitment is viewed as an employee's wish to remain a member of an organization due to a feeling of obligation (Meyer, 1991). In sum, when an employee possesses high levels of affective, continuance and normative commitment, this situation can strongly invoke his/her sense of attachment with an organization (Colquitt, Lepine and Wesson, 2013; McShane and Glinow, 2015).

Within a workplace compensation model, many scholars concur that communication, participation, performance appraisal and organizational commitment are distinct, but they are strongly interconnected concepts. For example, the ability of administrators to appropriately implement communication, participation, and performance appraisal in allocating rewards based on performance criteria may lead to an enhanced organizational commitment (Anuar et al., 2014; Salim et al., 2015).

Although the nature of this relationship is interesting, the predicting variable of administrators in managing reward for individual performance has not been thoroughly investigated in the workplace compensation research literature (Salim et al., 2015; Armstrong, 2014). Many scholars argue that this situation is due to the previous studies that have much described the characteristics of reward for individual performance (Armstrong, 2014; Anuar et al., 2014), utilizing a simple association method to evaluate employee perceptions towards various kinds of performance based reward (Anuar et al., 2014; Martocchio, 2015), while neglecting to quantify the effect size and nature of relationship between reward for individual and specific employee outcomes (Armstrong, 2014; Martocchio, 2015). Consequently, these studies have only provided general findings and this is not adequate to assist practitioners in understanding the complexity of reward for individual performance concept and crafting strategic action plans to meet the vision and missions of agile organizations (Armstrong, 2014; Salim et al., 2015). Therefore, this situation motivates the researchers to fill in

the gap of literature by quantifying the effect of reward for individual performance on organizational commitment.

## 2. OBJECTIVE OF THE STUDY

This study consists of three major objectives: first, to measure the relationship between communication and organizational commitment; second, to measure the relationship between participation and organizational commitment; and finally, to measure the relationship between performance appraisal and organizational commitment.

## 3. LITERATURE REVIEW

Lazear and Rosen's (1979) tournament theory describes two types of players that are winners and losers in a tournament. In organizations, high performing employees are usually treated as winners in a job competition and they should be awarded a higher type, level and/or amount of reward as compared to non-performing employees. As a result, it may affect employee behavior. Adams' (1963) equity theory suggests that if an employee viewed that he/she receives rewards equal with his/her contributions (e.g., effort and ability) this may lead to induced positive behavior. The notion of these theories promotes that reward differentials based on individual performance will easily be accepted by employees if administrators can appropriately implement communication, participation and performance appraisal in managing the reward systems. This idea has received strong support from the individual, performance based reward research literature.

For example, several recent studies were conducted using a direct effects model to examine reward for individual performance in different samples, such as perceptions of 333 middle and upper managers at the government sector in Malaysia (Garib Singh, 2009), 104 hotel managers around Langkawi, Malaysia (Rozila, 2013), 203 staff members of public and private university in Kenya (Wainaina et al., 2014), 109 public servants of

several government agencies in Putrajaya and Selangor, and 50 district staff officers in peninsular Malaysia (Azman et al., 2014). The findings of these surveys revealed that the competency of administrators to openly deliver the information about reward for individual performance, actively encourage participation style in making decisions about reward for individual performance, and appropriately use performance appraisal procedure to determine rewards based on individual performance had been an important predictor of organizational commitment (Anuar, 2014; Salim et al., 2015). Thus, it was hypothesized that:

H1: There is a positive relationship between communication and organizational commitment

H2: There is a positive relationship between participation and organizational commitment

H3: There is a positive relationship between performance appraisal and organizational commitment

## 4. METHODOLOGY

### 4.1. Research Design

This study employed a cross-sectional research design which allowed the researchers to integrate the rewards for performance literature and the real survey as a main procedure to collect the data for this study. According to Cresswell, (2014) and Sekaran & Bougie (2011), using this data collection procedure may help the researchers to gather accurate data, decrease bias and increase quality of data being collected. This study was conducted at fire and rescue organizations in Malaysia. At the early stage of this study, a survey questionnaire was drafted based on the performance based reward literature. After that, 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 (Cresswell, 2014; Sekaran & Bougie, 2011).

## 4.2. Measures

The survey questionnaire consists of four major parts. First, communication had four items adapted from rewards administration literature (Sperling et al., 2008; Scott et al., 2007; Downs & Hazen, 1977). The dimensions used to measure communication were clarity, knowledge, and trust. Second, participation had three items adapted from rewards administration literature (Belfield & Marsden, 2003; Kim, 1999; Lee et al., 1999). The dimensions used to measure participation were participation in the design of pay system and participation in the administration of pay system. Third, performance appraisal had three items adapted from rewards management literature (Brown et al., 2010; Ismail et al., 2011; Kalb et al., 2006; Kelly et al., 2008; Sabeen & Mehboob, 2008; Sogra et al., 2009). The dimensions used to measure performance appraisal were clarity, trust, and fairness (procedures and process). Finally, organizational commitment had five items that were adjusted from the organizational commitment literature (Meyer & Allen, 1997; Mowday, Steers & Porter, 1979). The dimensions used to measure organizational commitment were intrinsic and extrinsic.

All these items were measured using a 7-item scale ranging from “strongly disagree/dissatisfied” (1) to “strongly agree/satisfied” (7). Demographic variables were used as controlling variables because this study emphasizes on employee attitudes.

## 4.3. Sample

A convenient sampling was employed to collect 159 usable survey questionnaires from employees in the organizations. This sampling technique was applied because the management of the organization had not given the list of registered employees to the researchers and this situation did not allow the researchers to use a random technique in choosing respondents for this study. The survey questionnaires were answered by participants based on their consents and on a voluntary basis.

## 4.4. Data Analysis

The SmartPLS was used to assess the validity and reliability of the instrument and test the research hypotheses. The main advantage of using this statistical package may deliver latent variable scores, avoid small sample size problems, estimate every complex model 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 (Henseler & Chin., 2010, Ringle & Will, 2005). The SmartPLS path model was employed to assess the path coefficients for the structural model using the standardized beta ( $\beta$ ) and  $t$  statistics. 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 & Chin., 2010; Chin, 2001). As an additional assessment of model fit in PLS analysis, we carried out a test of predictive relevance using blindfolding procedure ( $Q^2$  statistic) (Hair et al., 2014). According to Chin (2003), the  $Q^2$  statistic is a jackknife version of the  $R^2$  statistic. It represents a measure of how well observed values are reconstructed by the model and its parameter estimates. Model with  $Q^2$  greater than zero is considered to have predictive relevance. The value of  $Q^2$  is considered as follows: 0.02 (small predictive relevance for an endogenous construct), 0.15 (medium predictive relevance for an endogenous construct), and 0.35 (large predictive relevance for an endogenous construct) (Hair et al., 2014).

## 5. FINDINGS

Table 1 shows that the majority of respondents were males (87.4%), aged from 25 to 34 (39.0%), Malaysia Certificate of Education holders (77.4%), supporting staff (71.7%), working experiences from 5 to 14 years (32.1%), monthly salary between Malaysian Ringgit RM 2500 to 3999 (54.1%), and married employees (73.0%).

Table 1. Respondent Characteristic (n = 159)

Respondent	Sub Profile	Percent age
Gender	Male	87.4
	Female	12.6
Age (years)	< 25	10.7
	25 – 34	39.0
	35 – 44	27.7
	45 – 54	16.4
	> 55	6.3
Education Level	LCE / SRP	3.1
	MCE / SPM	77.4
	HSC / STPM	8.8
	Diploma	6.9
	Degree	3.8
Position	Management & professional group	14.5
	Supervisory group	8.2
	Technical staff	3.8
	Clerical & supporting staff	71.7
	Other	1.9
Tenure of service (years)	< 5	17.6
	5 – 14	32.1
	15 – 24	22.0
	> 25	28.3
Gross monthly salary (MYR)	< 1,000	4.4
	1,000 – 2,499	35.2
	2,500 – 3,999	54.1
	4,000 – 5,499	4.4
	5,500 – 6,999	1.9
Marital status	Single	27.0
	Married	73.0

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

### 5.1. Validity And Reliability of Instrument

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 constructs, as well as the loadings of variables that were greater than 0.70 in their own constructs in the model which is considered adequate (Henseler & Chin., 2010). Overall, the validity of the measurement model met the criteria, while the values of composite reliability for all constructs were greater than 0.80, indicating that the instrument used in this study had high internal consistency (Henseler & Chin., 2010; Nunally & Bernstein, 1994).

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

Constructs	Cross Factor Loading	Composite Reliability
Communication	0.752-0.780	0.851
Participation	0.739-0.838	0.870
Performance Appraisal	0.739-0.874	0.866
Organizational Commitment	0.719-0.841	0.887

Table 3 shows the results of convergent and discriminant validity analyses. All concepts had the values of AVE larger than 0.5, indicating that they met the acceptable standard of convergent validity (Barclay, Higgins & Thompson, 1995; Fornell & Larcker, 1981). Besides that, all constructs that had the values of AVE in diagonal were greater than the squared correlation with other constructs in off diagonal, signifying that all concepts met the acceptable standard of discriminant validity (Henseler & Chin., 2010; Yang, 2009).

Table 3. The Results of Convergent and Discriminant Validity Analyses

Construct	AVE	1	2	3	4
Communication	0.588	0.767			
Participation	0.690	0.475	0.831		
Performance Appraisal	0.685	0.252	0.400	0.828	
Organizational Commitment	0.612	0.560	0.477	0.401	0.782



## 5.2. Analysis of the Constructs

Table 4 shows the results of variance inflation factor and descriptive statistics. The means for all constructs were from 4.8506 to 5.2453, signifying that majority respondents perceived the levels of communication, participation, performance appraisal, and organizational commitment ranging from high (4) to highest level (7) in the organizations. The values of variance inflation factor for the

relationship between the independent variable (i.e., communication, participation, performance appraisal) and the dependent variable (i.e., organizational commitment) were less than 5.0, signifying that the data were not affected by serious collinearity problem (Hair et al., 2014). These results further confirm that the instrument used in this study has met the acceptable standards of validity and reliability analyses.

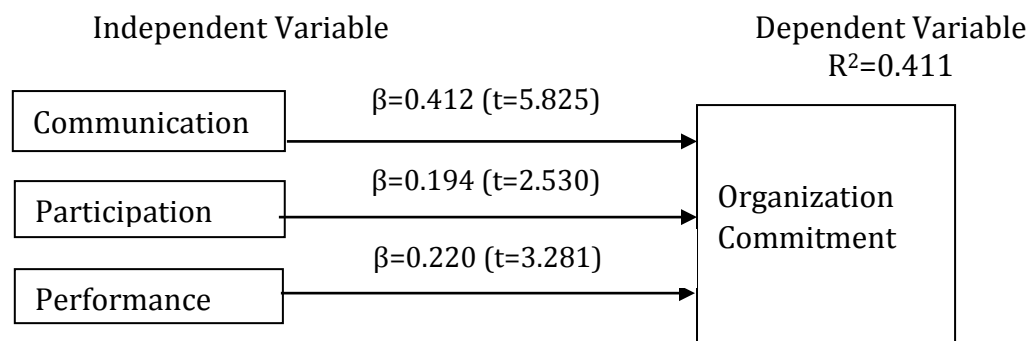
Table 4. The Results of Variance Inflation Factor and Descriptive Statistics

Construct	Mean	Standard Deviation	Variance Inflation Factor
Communication	4.8506	0.81768	1.300
Participation	4.9413	0.64907	1.448
Performance Appraisal	5.2453	0.64681	1.197
Organization Commitment	5.1296	0.65144	

## 5.3. Outcomes of Testing Hypotheses

Figure 1 shows that organization commitment had  $R^2$  value of 0.411 that was more than 0.19 (Henseler & Chin, 2010), showing that the overall predictive strength of the model was moderate. It explains that the inclusion of participation in the analysis had explained 41 percent of the variance in the dependent variable. Specifically, the results of testing the research hypothesis showed that communication was positively and significantly correlated with organizational commitment ( $\beta=0.412$ ;  $t=5.825$ ), therefore H1 was supported. This result confirms that communication is an important predictor of

organizational commitment. The results of testing the research hypothesis showed that participation was positively and significantly correlated with organizational commitment ( $\beta=0.194$ ;  $t=2.530$ ), therefore H2 was supported. This result confirms that participation is an important predictor of organizational commitment. The results of testing the research hypothesis showed that performance appraisal was positively and significantly correlated with organizational commitment ( $\beta=0.220$ ;  $t=3.281$ ), therefore H3 was supported. This result confirms that performance appraisal is an important predictor of organizational commitment.



Note: Significant at  $*t > 1.96$

Figure 1. The Outcomes of Testing Hypotheses

As an extension of testing the research hypotheses, other tests were further conducted to determine the effect sizes for all constructs, overall predictive strength of the model and predictive relevant for the reflective endogenous latent variable in the hypothesized model. The result of testing effect size ( $f^2$ ) for communication showed that it had  $f^2$  value 0.222 which was higher than 0.15 (Hair et al., 2014), indicating that it had moderate effect. The result of testing effect size ( $f^2$ ) for participation showed that it had  $f^2$  value 0.044 which was lower than 0.15 (Hair et al., 2014), indicating that it had small effect. The result of testing effect size ( $f^2$ ) for performance appraisal showed that it had  $f^2$  value 0.068 which was lower than 0.15 (Hair et al., 2014), indicating that it had small effect. Besides, a test of predictive relevance for the reflective endogenous latent variable showed that it had  $Q^2$  value 0.226 which was greater than zero for the reflective endogenous latent variable. This result has predictive relevance. In terms of explanatory power, the  $Q^2$  value for organizational commitment was more than 0.15, showing that it had medium predictive relevance (Hair et al., 2014).

## 6. DISCUSSION AND IMPLICATIONS

The findings of this study prove that administration of reward for individual performance is an important predictor of organizational commitment in the organizations. In the context of this study, administrators have planned and implemented performance based according to the policies and rules as established by their stakeholders. Majority respondents view that the levels of communication, participation, performance appraisal, and organizational commitment are high. This situation posits that the ability of administrators to openly communicate the information about reward for individual performance, highly encourage participation style in making decisions about reward for individual performance, and appropriately use performance appraisal procedure to allocate rewards based on individual performance may lead to greater

organizational commitment in the organizations.

This study provides three important implications: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study have provided great potential for understanding the influence of communication, participation, and performance appraisal on organizational commitment in the performance reward system models of the studied organizations. This result also has supported and extended the studies by McCausland et al. (2005), Garib Singh (2009), Brown et al. (2010), Ismail et al. (2011a), Ismail et al. (2011), and Anuar et al. (2014). With respect to the robustness of research methodology, the survey questionnaire used in this study had satisfactorily met the requirements of validity and reliability analyses. This situation could lead to produced accurate and reliable research findings.

With regard to the practical contribution, the findings of this study can be used as guidelines by practitioners to improve the management of reward for individual performance in a knowledge based organization. This objective may be realized if management pay more attention on the following aspects: first, the adequacy of reward should be revisited in line with the current national cost of living standards and organizational expectations. Improvement in this aspect may help high performers to upgrade their standards of living and statuses in society, as well as motivate them to continuously support their organization strategic vision and missions. Second, training content and methods should be updated by concentrating on strengthening administrators' soft skills. These skills may stimulate administrators to use their intellectuals in executing daily job and practice comfortable interaction styles in resolving employees' complaints and demands. Third, high commitment management practices should be promoted to enable employees from different job levels and categories to be involved in the process of

establishing and implementing reward for individual performance. Finally, performance appraisal should be used as an important instrument to identify employees' weaknesses, provide material and moral support in building employee's capabilities, and suggest unconventional ways to improve employee performance. If these suggestions are heavily considered this may motivate employees to maintain and support the goals of workplace administration of reward for individual performance.

## 7. CONCLUSION

This study assessed a conceptual schema developed based on the workplace compensation model research literature. The measurement scale used in this study satisfactorily met the requirements of validity and reliability analyses. The results of SmartPLS path model analysis revealed that reward for individual performance administration was positively and significantly correlated with organizational commitment, therefore H1, H2 and H3 were fully supported. The findings demonstrate that the capability of administrators to openly communicate the information about reward for individual performance, highly encourage participation style in making decisions about reward for individual performance, and appropriately use performance appraisal procedure to determine rewards based on individual performance has enhanced employees' commitment to organization. In addition, this result has supported and broadened reward for individual performance research literature that is mostly published in overseas. Therefore, current research and practice within organizational compensation model needs to consider communication, participation and performance appraisal as fundamental elements of the reward for individual performance domain. This study further suggests that the ability of administrators to properly plan and implement reward for individual performance will strongly induce positive subsequent personal outcomes (e.g., fairness, satisfaction, performance, and commitment). Besides, this

positive behavior may lead to maintained and enhanced organizational performance in an era of global competition.

This study has some limitations in terms of methodological and conceptual elements. First, a cross-sectional research design used in this study may not capture causal connections between the variables of interest. Second, the outcomes of SmartPLS path model analysis did not measure the relationship between specific indicators for the independent variable and dependent variable. Third, this study used a direct effect model to show the correlation between the independent variables and the dependent variable. Finally, this study employed a small sample size and it may expose the response bias. These limitations may decrease the ability to generalize the findings of this study to other organizational settings.

There are a number of suggestions that can be implemented for future research in this field. First, several organizational and personal characteristics (e.g., organizational size, gender, age, education, and positions) should be further discovered, where this may show meaningful perspectives in understanding how individual similarities and differences influence the implementation of reward for individual performance in organizations. Second, other research designs (e.g., longitudinal studies) should be utilized to collect data and describe the patterns of change and the direction and magnitude of causal relationships amongst variables of interest. Third, to fully understand the effect of reward for individual performance on organizational commitment, more varied organizations need to be involved. Fourth, response bias and common-method variance is a common issue in survey method. In order to lessen these limitations, the use of a larger sample size can characterize the studied population. Finally, other specific elements of reward for individual performance such as leadership style and award criteria need to be considered because they have been found to exert influence on the relationship between reward for individual performance and other employee outcomes (e.g., satisfaction,



performance, and commitment) (Newman et al. 2016; Martocchio, 2015). The significance of these issues needs to be further explored in future study.

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