

PAY SATISFACTION AS MEDIATOR OF THE INFLUENCE OF ORGANIZATIONAL JUSTICE ON WORK MOTIVATION: AN INVESTIGATION IN THE ROMANIAN CONTEXT

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Abstract. *The financial rewards received by employees have long been considered as a powerful work incentive, but previous studies showed that the relationship between pay and work performance is not necessarily linear. Our study focuses on a specific subjective determinant of work motivation related to pay, namely on pay satisfaction, and on its potential factors in the area of organizational justice. Past investigations found that employee's subjective reactions towards their pay (i.e. their pay satisfaction) are grounded in their perceptions of the fairness of pay distribution and decisions, i.e. of the ways in which financial rewards are allocated within the company. We took into account two dimensions of organizational justice that have been shown as for being especially relevant for employee satisfaction and motivation, i.e. distributive and procedural justice. Our hypothesis was that pay satisfaction mediates the influence of distributive and procedural justice on work motivation. The study was conducted on a sample of 270 Romanian employees of companies in various sectors located in Iasi who were administered the research instruments measuring the four variables in our model. The model, comprised of the pattern of relationships between variables, was tested through structural equation modeling. Our results show that distributive and procedural justice perceptions have a positive influence on pay satisfaction, which further exerts a positive effect on work motivation. Overall, these two relationships indicate that pay satisfaction is a mediator of the influence of the two dimensions of organizational justice on work motivation. A direct effect of procedural justice on the latter variable was also highlighted by the results of the data analysis and was included in the general model. Further studies should test the role of other objective and subjective dimensions in this pattern of relationships, as well as examine the effect of interventions designed to improve employees' perceptions of organizational justice.*

Keywords: *work motivation; pay satisfaction; distributive justice; procedural justice; work performance; mediation*

Introduction

The high competitiveness of the economies worldwide force companies to design and implement human resources policies that would increase the work performance of their staff, which would consequently foster the performance of the company as a whole. Hence, personnel motivation to perform in their organizational tasks and duties represents an essential condition for the companies' economic growth and even survival. The importance of personnel work motivation for work productivity and positive organizational behaviors has been attested by numerous field studies (Schultz & Schultz, 1998; Huddleston & Good, 1999). Not only highly motivated employees perform better at work than their less motivated colleagues, but low work motivation

can also become a toxic employee characteristic, generating negative effects on relationships with management and on the general work atmosphere of the organization (Marsden & Richardson, 1994).

One of the traditional instruments through which companies aim to increase employee motivation is that of financial rewards and incentives. Pay has long been considered as a powerful work incentive, due to its high personal valence that can motivate employees to obtain higher performances on the job in order to receive such rewards, in line with the classic expectancy theory (Vroom, 1964). According to Vroom's Valence - Instrumentality - Expectancy Model, work motivation is determined by the relationships between the effort employees put into their work, the performances that they achieve and the subsequent rewards they receive. Consequently, in order to generate high levels of motivation in their personnel, organizations should ensure that work efforts would indeed lead to performance on the job (Expectancy), that these performances would be rewarded (Instrumentality) and that the rewards allocated are valuable for the employees (Valence).

Pay is a universal incentive, and the influential role of financial rewards on organizational behaviors has been documented by various studies, which highlighted associations between pay and productivity (e.g. Lum et al., 1998), but also other important areas such as personnel turnover (Thatcher et al., 2006; Hunter, Tan & Tan, 2008). Nevertheless, there are also cases in which the relationships between pay and work performance is not so straightforward, as it can be illustrated by two lines of research, specifically that focused on the effects of pay dispersion and that concerned with the effects of pay for performance programs. Firstly, there are empirical results showing a positive influence on pay dispersion and employee performance, in the sense that performances in companies allowing a dispersed pay system, in which there are considerable differences in financial rewards between employees even at the same organizational level, are higher than those in companies with compressed pay systems (Downes & Choi, 2014; Kepes, Delery, & Gupta (2009). Conversely, other studies highlight an inverse relationship between pay dispersion and work performance, indicating detrimental effects of large differences in pay among employees (Pfeffer & Langton, 1993; Bloom & Michel, 2002). Similarly, positive effects of pay for performance programs, in which a significant part of the employees' total retribution is associated with their work performance, have been frequently reported (e.g. Heneman, Ledford, & Gresham, 2000), as well as negative consequences on job behaviors and even overall performance (Wright et al., 1993; Beer & Cannon, 2004).

Such contradictory findings can be accommodated and understood by taking into account not only the objective side of the organizational phenomena at stake, such as financial compensation, pay dispersion and variations, but also the subjective side, in terms of employee's relevant attitudes and evaluations that, in turn, influence their work motivation. Our study focuses on a specific subjective determinant of work motivation related to pay, namely on pay satisfaction, and on its potential factors in the area of organizational justice.

Firstly, it is important to note that the effects of financial rewards on work motivation and performance are mediated by the subjective dimension of pay satisfaction. In other terms, it is the influence of pay-related variables on pay satisfaction that further generates effects on work behaviors. Pay satisfaction represents the employee's

personal evaluation of the financial rewards received, and this evaluation compares the actual level of pay to that considered as ideal in the respective organizational context (Kwon et al. 2008). Besides representing a major component of the general satisfaction employees have with their job (Jurgensen, 1978; Rusbult & Farrell, 1983), alongside other facets such as intrinsic attractiveness of the work tasks, supervision, work relationships etc. (Cotton & Tuttle, 1986), it also has important effects on work motivation and subsequent performance (Dailey & Kirk, 1992).

Secondly, previous research in the organizational psychology literature suggests that the subjective evaluation of pay is based, among others, on employees' perceptions of the organizational procedures involved in the allocation of these financial rewards (DeConick & Stilwell, 2004; Sweeney, 1990). The general principle according to which pay levels and dispersion are evaluated by employees is that of fairness, and previous results show that the perceived fairness of pay can be even more important in terms of its organizational consequences than the actual objective amounts of pay (Folger & Konovsky, 1989). The more general organizational psychology concept that corresponds to and accommodates these subjective perceptions of fairness is organizational justice.

Generally, organizational justice refers to the fairness of the decisions made within an organization, as they are perceived by its employees (Greenberg, 1987). Its theoretical origin is equity theory (Adams, 1965), which highlighted the importance of employee perceptions of fairness, especially regarding the allocation of financial resources within the company, for their organizational behaviors, unfair pay distributions leading to negative consequences on work motivation and productivity. According to the equity theory, an employee's work motivation depends on the comparison that he/she makes between his/her ratio of inputs and outputs and the correspondent ratios of his/her fellow employees. Inputs represent the contributions that one makes to the progress and success of the company, such as effort, skills, experience etc., while outputs refer to the benefits one receives from the organization, such as salary, promotions, bonuses etc. When employees perceive in-equitability at their expense, for instance when they notice that other employees receive more rewards for the same overall amount of input, or when the rewards are the same among employees while some are putting much more effort in their work than others, they will try to reduce the inequity. In many cases, this entails diminishing one's input, by reducing one's effort and productivity. Thus, perceived inequity can have direct and detrimental effects on work motivation.

The dimensions of organizational justice that are most relevant for the topic of pay allocation within companies are distributive and procedural justice. Distributive justice refers to the evaluations of the outcomes of the financial decisions concerning an employee, in other words to the degree to which employees perceive their pay as equitable in comparison to that received by other colleagues. Procedural justice refers to the fairness evaluations of the organizational procedures, methods, and criteria used to decide these financial outcomes (Roth, 2006). These two dimensions of organizational justice have been found to influence various aspects of employee reactions and behaviors, such as organizational identification (Kwon et al., 2008), work withdrawal behaviors (Pinder, 2008), the tendency to engage in counterproductive behaviors and workplace conflicts (Cohen-Charash & Spector, 2001), turnover intentions (Lum et al., 1998). Moreover, employees perceiving pay decisions and

procedures in their company as unjust have lower pay satisfaction (DeConick & Stilwell, 2004) and work performance (Colquitt et al., 2001).

The present study aims to test these relationships between distributive and procedural justice, pay satisfaction and work performance in a different cultural setting than the Western one in which the studies in this area have been mostly carried out, namely the Romanian one. As mentioned before, the empirical results concerning the motivational and work performance effects of various pay – related factors (such as pay dispersion or pay for performance programs) have been mixed, highlighting the need for further studies in this area in various socio-economic spaces. The research reviewed above suggests that employee's subjective reactions towards their pay (i.e. their pay satisfaction) are grounded in their perceptions of the fairness of the ways in which financial rewards are decided and allocated within the company. When they evaluate the amount of pay they receive as unjust, by comparing their work input (effort, qualifications, time etc.) and pay to the input and rewards received by their colleagues and assessing this ratio as unequal at their expense, and / or when they perceive the criteria upon which pay is distributed in the organization as unfair, their pay satisfaction is affected beyond the influence that the actual objective level of financial rewards might have. Furthermore, this detrimental effect of organizational injustice on pay satisfaction affects employee work motivation. Consequently, we hypothesize that pay satisfaction mediates the influence of distributive and procedural justice on work motivation.

Method

Participants and procedure

We distributed 395 surveys to employees in 15 companies located in Iasi, Romania, out of which 270 were returned. The surveys were anonymous, and confidentiality was ensured. In the final sample, 140 employees (52%) were men; mean age was 27 years. Participants' distribution on the work sector criterion was: 81 (30%) in the banking sector, 65 (24.1%) in the health sector, 42 (15.6%) in the industrial sector, 42 (15.6%) in the sales sector, 25 (9.3%) in the private school sector and 15 (5.6%) in private consulting.

Instruments

Work motivation was assessed using the scale developed by Patchen (1970) and used in various studies on the factors and consequences of work motivation (e.g. Khojasteh, 1993; Crewson, 1997). The three items of the instrument require participants to evaluate their level of agreement with sentences describing the work effort that they usually invest. Higher overall scores indicate higher levels of work motivation.

Pay satisfaction was measured with the 13-item instrument developed by Heneman & Schwab (1985). Its items refer to four facets of pay satisfaction, namely pay level, pay raises, benefits, and structure and administration of financial rewards. Participants rate their level of satisfaction concerning the various dimensions of their pay by choosing an option from 1 – “not at all satisfied” to 6 = “completely satisfied”. Higher overall scores indicate high pay satisfaction.

Distributive justice was assessed with the 7-item instrument developed by Brashear, Brooks, and Boles (2004), which has been used in other organizational psychology studies (Chan & Jepsen, 2011; Ladebo et. al, 2005). The scale measures employee perceptions of the distribution of the financial rewards in their company when taking into account their various organizational inputs (effort, responsibilities, quality of work output, etc.). Higher overall scores indicate perceptions of adequate distributive justice. *Procedural justice* was assessed with the scale developed by Tekleab, Bartol, and Liu (2005), a 2-item instrument requiring employees to evaluate the correctness of the procedures through which their financial rewards are determined, on a response scale ranging from 1 – “not at all correct” to 6 = “absolutely correct”. Higher overall scores indicate high perceived procedural justice.

Data analysis

Firstly, we assessed the internal consistency of our research instruments through their mean inter-item correlations, computed in SPSS 20.0 (see Table 1). Secondly, we computed the Pearson correlations between variables (see Table 1). Thirdly, we assessed the adequacy of the proposed causal model between the four variables of the research design, through structural equation modeling in AMOS 18.0. This approach allows the estimation of the statistical adequacy of a complex model, through several indexes (Byrne, 2001), as well as the changes in the relationships included in the model that would improve its adequacy, (i.e., Modification Indexes). In order to evaluate the goodness-of-fit of the model, we used the following indexes: the chi-square statistic, the Goodness of Fit Index (GFI), the Comparative Fit Index (CFI), the adjusted goodness-of-fit statistic (AGFI) and the Root Mean Square Error of Approximation (RMSEA).

Results

The inter-item correlations, presented in Table 1, indicate that all instruments have satisfactory internal consistency. The correlations are in line with our general hypothesis, with work motivation significantly and positively related to distributive justice, procedural justice and pay satisfaction, and the latter also positively associated to the two dimensions of organizational justice.

Table 1. Means, standard deviations, internal consistency and Pearson correlations between variables

	Mean inter-item correlation	1	2	3	4
1. Work motivation	.36	1.0	.33**	.06	.17**
2. Pay satisfaction	.33		1.0	.38**	.16*
3. Distributive justice	.40			1.0	.10
4. Procedural justice	.36				1.0

* $p < .05$; ** $p < .01$

Next, we used the structural equation approach to assess whether the hypothesized model of relationships between these variables, which includes causal effects on distributive and procedural justice on pay satisfaction, as well as of the latter on work motivation, has an adequate fit to the data.

The indexes of model fit resulted from the analysis of this model were: $\chi^2_3 = 8.61$, $p < .05$; CFI = .93, AGFI = .95, GFI = .98; RMSEA = .08 (with a 90% confidence interval .02 – .153). According to the guidelines concerning the accepted values and intervals of these fit indexes (Byrne, 2001), they suggest an acceptable level of model fit. We analyzed the modification indexes to identify the changes in the hypothesized model that could increase its statistical adequacy. We found that model fit can be improved by adding a causal relationship from procedural justice to work motivation, besides the effect of procedural justice that is mediated by pay satisfaction. We re-specified the model by adding this relationship and re-analyzed its model fit. The indexes resulted were: $\chi^2_2 = 4.34$, $p = .11 > .05$; CFI = .97, AGFI = .96, GFI = .99; RMSEA = .066 (with a 90% confidence interval .00 – .15). They indicate a better fit of this model, all indexes showing an adequate fit to the data, while there are no additional modifications that would increase model fit. Also, all the regression weights between variables were significant at the .05 level. The final model with the standardized regression weights, indicating the strength of the influences between variables, is presented in Figure 1.

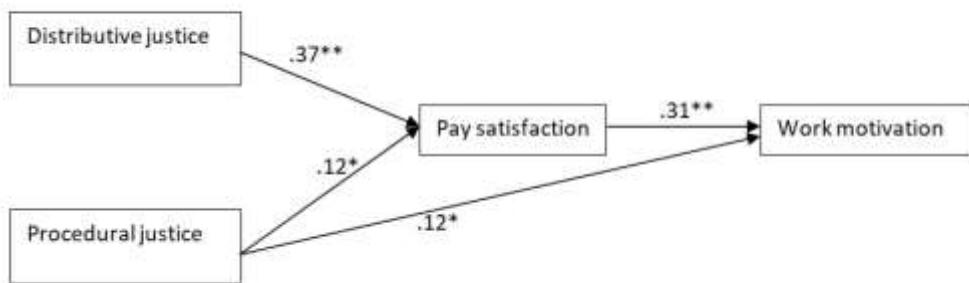


Figure 1. The standardized regression weights of the effects in the final model
**** $p < 0.001$; * $p < 0.05$**

As the relationships depicted in Figure 1 show, we found distributive and procedural justice to exert significant influences on pay satisfaction, and the latter to have a positive and significant effect on work motivation. Hence, pay satisfaction emerged, as hypothesized, as a mediator of the effects of the two dimensions of organizational justice on work motivation. Moreover, procedural justice also has a significant direct positive influence on work motivation.

Discussion

Financial compensation has always been regarded as a major motivator of work motivation. Nevertheless, there are also conditions in which employee perceptions concerning the allocation of pay within their company generate detrimental effects on their motivation and subsequent performance, as studies on the consequences of pay dispersion and pay for performance programs have revealed (e.g. Bloom & Michel, 2002; Beer & Cannon, 2004). This indicates that the exact conditions in which pay – related variables and parameters lead to the best results in terms of work motivation and performance have yet to be determined, as well as tested in various cultural and socio-economic areas. Moreover, elucidating this issue could prove of considerable importance for the Human Resources professionals, as it could inform strategies aimed at increasing the work motivation of the personnel in their organization as well as at

counteracting the potentially detrimental influences on work performance of the employee perceptions concerning their pay.

Our study focused on the potential influential role of pay satisfaction and on the determinants of this evaluation from the area of organizational justice in a sample of Romanian employees. Our results indicate that the two dimensions of justice – distributive and procedural – have a positive influence on work motivation and that this effect is mediated by pay satisfaction. Thus, positive employee perceptions of distributive and procedural justice increase pay satisfaction, which further generates a significant positive influence on work motivation. Conversely, and in line with previous studies, employees evaluate the distribution of financial rewards in their organization as unjust are consequently less satisfied with their own pay (Aquino, Griffeth, Allen, & Hom, 1997). Similarly, when employees perceive the criteria, rules and procedures that make up the process of allocating financial rewards in their company as unjust, they become less satisfied with the pay that they regularly receive (Tang & Sarfield-Baldwin, 1996).

These influences of the two dimensions of organizational justice highlight its importance for the company, especially since they extend to other facets of employees' attitudes and behaviors, as other investigations have found. Specifically, employees who perceive low levels of distributive and procedural justice in their company also have a higher rate of turnover (Paré & Tremblay, 2007) and lower organizational commitment (Ahuja et al., 2007). Taking into account the influences on pay satisfaction and consequent work motivation highlighted by our study, organizational justice appears as a very important and sensitive facet of employees' perceptions of their company, and management representatives should invest effort into ensuring optimal levels of these perceptions among their staff. Consequently, the findings of the present study could be incorporated and developed in HR strategies that would aim to ensure transparency towards employees in what regards their pay and general rewards in all their components, specifically the bonuses, raises and other financial and non-financial benefits that they and their colleagues receive. This can be achieved by explaining the rationale and the exact mechanisms behind financial compensation decisions, which would diminish employee suspicions concerning unfair pay allocation or the interference of subjective biases in these decisions. Specifically, HR professionals could encourage management to organize meetings in which these issues would be openly discussed with the employees, and in which the conditions under which an employee can receive the maximum amount of payment under the current organizational pay scheme would be clearly described. This would not only clarify the relationship between effort and financial rewards for each employee, leading to higher work motivation but would also alleviate suspicions that these rewards would be subjectively and arbitrarily allocated.

Moreover, implementing criteria that employees perceive as being a fair ground for the pay differences between staff is another potentially fruitful intervention. Past work performance is one of the criteria that is perceived by employees as having the higher degree of legitimization (Shaw & Gupta, 2007). Thus, implementing or stressing the weight of this factor in the compensation policy implemented by the company increases the probability that the procedures and the results of this policy would be perceived as fair by the staff. This would also lead to positive effects on general productivity; as Shaw, Gupta, and Delery (2002) found, in companies using performance as the main criterion in the allocation of financial rewards, large differences in pay increase work

performances, while the opposite effect was found in the organizations in which employees' compensation is not differentiated according to work performance. Consequently, our results suggest that another beneficial HR strategy in terms of work performance would be to recommend the implementation of pay for performance programs and to assist management in their development.

Our results also pinpoint a significant effect of pay satisfaction on work motivation, the former mediating the influence of distributive and procedural justice on the latter dimension. In line with previous investigations (e.g. Dailey & Kirk, 1992), employees who have positive evaluations of their current financial rewards are more motivated to perform in their work. Finally, we also found a direct effect of procedural justice on work motivation, indicating that perceiving the criteria and process of allocating financial rewards in their company as unjust has a direct detrimental effect on one's motivation. Similar distinct route of the influence of the two dimensions of organizational justice has been highlighted by previous studies; for instance, Tekleab et al. (2005) found procedural justice to have a stronger association to the satisfaction employees have towards their recent pay raises than to the actual amount of pay they receive. Our result highlighting the specific effect of procedural justice further stresses the influence of this dimension on the general subjective relationships on an employee with their company and thus the importance for the latter of eliminating any suspicions of unfairness in its procedures.

One of the limitations of the present study is that we used a correlational research design, which cannot fully demonstrate the presumed causal relationships between the variables in our model. Second, all data was collected at a single point in time, and thus our design does not capture the possible variations in motivation in time that might be generated by variations in the economic conditions of the companies in our sample.

To conclude, our study conducted on a sample of Romanian employees found distributive and procedural justice perceptions to have a positive influence on pay satisfaction, which further exerts a positive effect on work motivation, indicating that pay satisfaction is a mediator of the influence of the two dimensions of organizational justice on motivation. A direct effect of procedural justice on the latter variable also emerged. Further studies should test the role of other objective and subjective dimensions in this pattern of relationships, as well as examine the effect of interventions designed to improve employees' perceptions of organizational justice.

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