

Effect of Manager's Role in Performance Based Pay on Employee Outcomes

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Abstract

According to the recent literature pertaining on Islamic based organizational compensation, performance based pay consists of two essential features: communication and performance appraisal. Recent studies in this field highlights that the ability of managers to appropriately communicate pay information and appraise employee performance may have a significant impact on employee outcomes, especially job satisfaction and organizational commitment. Therefore, this study was undertaken to assess the relationship between manager's role in performance based pay and employee outcomes using self-administered questionnaires collected from employees at a district council in Peninsular Malaysia. The outcomes of the SmartPLS path model analysis showed that pay communication does not act as an important determinant of

job satisfaction, but performance appraisal does act as an important determinant of job satisfaction. Conversely, pay communication and performance appraisal act as important determinants of organizational commitment. In addition, this study provides discussion, implications and conclusion.

Keywords: Compensation; Pay Communication; Performance Appraisal; Job Satisfaction; Organizational Commitment

Introduction

Islam being a holistic faith that caters for every aspects of life; regulates with admirable comprehensiveness, the relationship between the employer and the employee. One should hasten to add here that the ultimate goal of Islam in this respect is the establishment of

justice. The employee is entitled to a just wage for his contribution to output. This right cannot be lawfully taken away from him. The Prophet Rasulallah (pbuh) said three persons will face God's wrath on Judgement Day and these are; one who dies without fulfilling his promise to God, one who sells a free person into slavery and devours the proceeds, and one who engages a labourer and denies him wages after his service. Just wages, by the definition of Islam, should be such that would, in the least, enable an employee to get a sufficient quantity of reasonably good food and clothing for himself and his family without overburdening himself. This was why the Prophet (pbuh) declared that "an employee is entitled to at least moderately good food and clothing and not being burdened with labour beyond what he can bear". The Prophet's companions deemed this the minimum level of earning needed to maintain the material, social and spiritual welfare of the society (Muhammed, 2013). Beside being paid at least minimum wages and preferably ideal wages Islam requires that labourers should not be made to work so hard or in such miserable conditions that their health deteriorates or their ability to enjoyed income or participate in family life get impaired (Chapra, 1983).

While according to the Islamic perspective, the reward systems is provided must be fair and should be compatible with a contribution or work that has been done. Surtahman Kastin and Abd. Ghafar (2001), stated that the Islamic principle for determination of a reward or wages for workers must be paid commensurate with their scope of work and skills on the quality of the workers themselves (such as physical, skills, training dan mental). It also should be more than an individual's needs in order to sustain and accommodate all the expenses of everyday life and their families (Mansor & Nor Ghani, 2005). In fact, Islam clearly outlined the two basic principle for remuneration or reward aspect for the person which is: Firstly it must be commensurate with the quality of the work performed. This is explained in Al-Qur'an which meanings:

Do not covet the favours by which Allah has exalted some of you above others (in respects of wealth, knowledge or position). (It has been decreed) that for men is a portion of what they earn, and for women is portion of what they earn. (Thus, strive) and ask Allah of His Bounty. Indeed, Allah has knowledge of all things. (Al-Qur'an 4:32)

And also in other surat which elaborated on these issue with meaning:

Lodge those wives (who are in waiting period) in your own homes, according to your means. Do not harass them (at you place) so as to make life intolerable for them (so that they will leave the place). If they are with child, maintain them until they deliver their burden, and if, after that, they give suck to their children, give them their due payment, and consult each other (concerning weaning) in a fair manner. But (on the other hand) if you (both parties) find yourselves in difficulties, let another woman suckle for him. (Al-Qur'an 65:6)

Through the understanding of this Al-Qur'an meaning, clearly shows that the principle of discussion (*Mushawarah*) between two parties whether the authorities (employers) and subordinates (employees) needs to take place with an atmosphere of harmony and good, meet one another and tolerant in order to fix the amount of remuneration is more appropriate.

The second principle as asserted by Surtahman Kastin and Abd. Ghafar (2001), which involves payment of compensation, should exceed the minimum basic needs of the individual. This is because employees will be unable to provide for their own daily lives as well as members of his family with an adequate wages. At present, this aspect is known as the minimum wage that will be adopted by many employers in Malaysia for the future.

In a human capital management perspective, compensation is often viewed as an employer designs and administers reward systems in order

to bestow its employees who perform service and/or job in organizations (McShane & Von Glinow, 2005; Ismail et al., 2007; Henderson, 2009; Ismail et al., 2013; Milkovich et al., 2014). Traditionally, pay for job is often implemented by an employer to determine the type, level and / or amount of reward based on employees' job conditions and responsibilities. For example, this pay system is often implemented in terms of time based pay, membership based pay, and seniority and tenure based pay. Adoption of this pay system, although may still be appropriate and applicable in stable and highly predictable business conditions (Mahoney, 1992; Henemen et al., 2000; Wilton, 2010) is gradually viewed as insufficient to attract, retain and motivate competent employees to increase organizational performance (Bergmann & Scarpello, 2002; Ismail et al., 2007; Ismail et al., 2013).

Then in an era of borderless world, many employers have shifted the paradigms of compensation program from a traditional job based pay to performance based pay in order to achieve their organizational strategy, culture and goals (Henemen et al., 2000; Lawler, 2000; Milkovich et al., 2014). For example, compensation experts from the Tower Watson (Donald Delves as the Director, Executive Compensation and Lori Wisper as Senior Consultant, Rewards) during an interview by Peter Gundy (Managing Director, Rewards, Talent and Communication, Americas) have stated that the practice of this system no doubt very beneficial especially to the excellence of the organization in the future (Delves et al., 2013).

Some economists divide the labour into productive and non-productive labour. It is productive if it adds some material value like labour in the agricultural sector and manufacture. If it does not result in some material value then it is unproductive. According to Adam Smith, labour of menial servants as well as of the most respectable orders in society such as sovereign with all its officers in civil administration, justice and armed forces, is unproductive. However, according to modern conception all labour is

called productive provided it is done to earn an income. Labour in this sense includes the very highest professional skill of all kinds as well as the labour of a mass of unskilled workers. Thus it includes labour of highly educated professionals like scientists, engineers, doctors, economists, professors, lawyers, judges, accountants, diplomats, administrators, as well as that of ordinary workers in factories, agricultural farms, government departments and private sector.

The problem of wages is very important as it effects the whole society. If the workers do not get fair and reasonable wages, it will not only affect their subsistence but also their purchasing power. And if a large portion of population like labourers have no purchasing power, it would adversely affect all those industries which are supplying consumer goods to the working class. Moreover, injustice to working class would lead to discontentment, frustration, agitation and strikes. Thus if the labourers are deprived of their just share from the national income, it would be in the long run an economic suicide' for a country (Chaudhry, 2013).

Hence, the Milken Family Foundation for example has proposed a bold new, systemic school improvement strategy. Its goal is to improve the quality of the teaching profession because excellent teachers enhance student learning. This program, known as the Teacher Advancement Program or TAP has five components, one of which is performance-based compensation. Salaries depend upon teacher achievements, teacher performance, tasks undertaken, and student achievement (Solmon & Podgursky, 1995). Agencies often have many objectives for pay for performance. For example, they may aim to improve the organization's ability to attract and retain high performers. They may hope to improve individual effort and consequently, organizational performance. They may also be searching for a fairer way to pay since those who contribute more to the organization should receive a larger salary in return (US Merit Systems Protection Bard, 2006).

One of the commonly cited studies in education considering the outcome of group-based performance rewards are research by Kelley (1999); Heneman and Milanowski (1999); Kelley et al. (2002) studies of the Kentucky and Charlotte-Mecklenburg's School-Based Reward Programmes. It is argued school-based reward programmes are beneficial because they motivate teachers, and this improved motivation increases student performance, which has a positive overall effect on student outcomes (Harvey-Bearis, 2003).

When referring to the performance based pay, it is also known as a pay for person where an employer provides 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 & Kahn, 2003). This new payment system has two major types: pay for group performance (team based pay and gain-sharing) and pay for individual performance (e.g., merit pay, lump sum bonus, promotion based incentives and variable pay). However, performance based pay has different types, they still use the same rule to allocate pays, which is when an employer rewards additional pays to the basic pay in order to meet high performers' needs and expectations (Lee et al., 1999; Lawler, 2000; Chang & Hahn, 2006; Ismail et al., 2007; Ismail et al., 2013; Milkovich et al., 2014). Under this pay system, the fluctuations 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 nature of their job structure (Appelbaum & Mackenzie, 1966; Lee et al., 1999; Amuedo-Dorantes & Mach, 2003). The main advantage of implementing performance based pay will attract, retain and motivate employees to achieve the major objectives of organizational pay system: efficiency (i.e., improving performance, quality, customers, and labor costs), equity (i.e., fair pay treatment for employees through recognition of employee contributions and employees' needs) and compliance with laws and regulations (Gomez-Mejia & Balkin, 1992a; 1992b).

Hence, it may lead to sustained and increased organizational performance (Jeyasutharsan & Rajasekar, 2013) and competitiveness in a dynamic marketplace (Lawler, 2000; Beardwell & Claydon, 2007).

As in the U.S, a National Research Council (NRC) panel reviewed both public and private sector research on pay for performance. The panel's summary of findings concluded that an empirical research indicates that individual incentive plans can motivate employees and improve individual performance (Milkovich & Wigdor, 1991). The panel qualified this conclusion, however, by observing that individual incentive schemes are most likely to succeed for simple, structured jobs and in contexts in which trust is high and fair performance goals can be set. The implied connection between the panel's general conclusions and the organisational setting is that conditions for success may be difficult to realize in certain organisations (Dogbe, 2011).

A review of recent organizational compensation program highlights that many managers have played three important roles in planning and implementing performance based pay, namely pay communication and performance appraisal. In a compensation management, pay communication is often defined as communicating the information about pay systems from employees to the organization and from the organization to employees (Fitzgerald, 2000; Hewitt Associates, 1991). Communicating pay information from employees to the organization refers to communication that occurs among pay administration analysts, human resource management experts/pay specialists and stakeholders where they actively seek broad information (e.g., job and labor market information) and specific information (e.g., compensation expectations and preferences) from employees (Henderson, 2009; Milkovich et al., 1995).

Conversely, communicating pay information from the organization to employees refers to openness and secrecy policies used by an

organization where these policies will determine toward extant the amount of pay information may be openly delivered from the organization to employees. The ability of administrators to properly use these communication policies may increase employees' understanding about the policy and procedures of pay system, avoid feelings of inequity, and respect employee personal dignities (Flannery et al., 1996; Fitzgerald, 2000; Henderson, 2000). Moreover, according to Hackett and Mcdermott to ensure that the organization can achieve its objectives in conducting this compensation, both employers and employees must understand the seven steps of the successful performance-based rewards programs which are: develop clear expectation, create a clear line of sight, set achievable goals, establish a credible measurement system, make rewards meaningful and lastly make payouts immediately (Hackett & Mcdermott, 1999). Thus, many companies in western countries, particularly in the U.S. who have successfully applied this system in their organization such as Lincoln Electric, Cleveland in Ohio; Nucor Corporation, Charlotte, North Carolina; Douglas County Federation of Teachers, Douglas County, Colorado (Abernathy et al., 2014).

While, performance appraisal is usually defined as an employer designs measurement methods to evaluate the ability of employees in performing duties and responsibilities based on their trait, behaviour and/or result criteria. The results of this evaluation will be used to determine the type, level and/or amount of pay for employees who work in different hierarchical levels and categories in organizations (Sabeen & Mehbob, 2008; Daft, 2012; Mondy & Mondy, 2014; Noe et al., 2014). In successful organizations, for example, yearly performance appraisal system based on single and/or multiple rater perspectives is often used to identify high performing employees and they will be given better incentives (e.g., performance bonuses and other recognitions) besides their basic salaries compared to underperform employees (Milkovich et al., 1995; Henderson, 2009; Mondy & Mondy, 2014).

If referred to the history of the Prohet's companions, Saydina 'Ali RA when he gave a message to Malik ibn al-Harith al-Ashtar with respect to guide the performance of an employee's performance evaluation in accordance with the Islam (Muhammad Nasri & Ab. Aziz, 2005), he said that:

Give them a good wage because it can help them strengthen their defense and self-improvement. They certainly will not take property under their care. If it was illegal to disobey or betrayal of trust, then you reason enough to have them.

Furthermore, according to Ab. Aziz (2005) that Saydina 'Ali RA has outlined a number of principles, specifically in addressing the problem on employee performance evaluation, namely: First, any employer (a leader) must apply the feelings of love to all subordinates (employees), the second principle, they should avoid the favoritism, and always give encouragement and support, choose a qualified and skilled workers, constantly monitored and meet them regularly. Next, the final principle they should examine any matter carefully and thoroughly before make a decision. Therefore, under the guidelines that recommended by Islam as it is able to produce leaders who fear God and be the best role model to others. Eventually everyone will be satisfied and happy when dealing with such employers.

Surprisingly, extant research in organizational pay system reveals that the ability of managers to properly implement performance based pay may have a significant impact on employee outcomes, especially job satisfaction (Money & Graham, 1999; Ismail et al., 2013), and organizational commitment (Hafer & Martin, 2006; Garib Singh, 2009). According to an organizational behaviour perspective, job satisfaction is often seen as a result of employees' perception or appraisal of their jobs (McShane & Von Glinow, 2005). If employees have experienced high satisfaction with their job, this may create a pleasurable or emotional state (Bartolo & Brett Furlonger, 2000; Locke,

1976) and a positive reaction in organizations (Oshagbemi, 2000a; 2000b; Feinstein, 2002). Conversely, organizational commitment is generally interpreted as an employee's belief in the organization's goals and values, desire to remain a member of the organization and loyalty to the organization (Mowday et al., 1979; Hackett et al., 1994; Maume, 2006).

Within an organizational pay model, many western scholars view that pay communication, performance appraisal, job satisfaction and organizational commitment are distinct, but highly interconnected constructs. For example, the ability of managers to appropriately communicate the information about performance based pay to employees and appropriately determine the type, level and/or amount of pay based on performance appraisal systems may lead to an enhanced job satisfaction (Money & Graham, 1999; Ismail et al., 2013), and organizational commitment (Hafer & Martin, 2006; Garib Singh, 2009). Even though the nature of this relationship is interesting, the role of managers in performance based pay as an important predicting variable is not much discussed in the workplace pay system research literature (Ismail et al., 2013).

Many scholars contend that the predicting variable of manager's role in performance based pay is given less emphasized in the previous studies because they have much discussed the characteristics of performance based pay, employed a simple association method to assess respondent attitudes toward the types of performance based pay and determine the degree of association between certain features of performance based pay and employee outcomes. Conversely, the effect size and nature of the relationship between manager's role in performance based pay and employee outcomes are largely ignored in the workplace compensation management research literature (Money & Graham, 1999; Garib Singh, 2009). As a result, these studies have not adequately provided recommendations to be used as guidelines by practitioners in

understanding the complexity of performance based pay, and formulating strategic and tactical plans to enhance the effectiveness of performance based pay in agile organizations (Ismail et al., 2013). Therefore, this study has four major objectives: First, is to measure the relationship between pay communication and job satisfaction. Second, is to measure the relationship between performance appraisal and job satisfaction. Third, is to measure the relationship between pay communication and organizational commitment. Fourth, is to measure the relationship between performance appraisal and organizational commitment.

Several recent studies were conducted using a direct effects model to investigate pay for performance based on different samples, such as perceptions of 299 U.S. employees and 268 of Japanese employees (Money & Graham, 1999), 553 non-managerial employees in Omaha, the largest city in the state of Nebraska, United States (Hafer & Martin, 2006), perceptions of 333 Malaysian middle and top level managers in the private sector (Garib Singh, 2009), and perceptions of 331 employees at Malaysian private institutions of higher learning (Ismail et al., 2013). The findings of these studies showed that the readiness of managers to openly communicate the information about performance based pay system and appropriately determine the type, level and/or amount of pay based on performance appraisal systems had motivated employees to enhance their job satisfaction (Ismail et al., 2013; Money & Graham, 1999), and organizational commitment (Hafer & Martin, 2006; Garib Singh, 2009).

The empirical studies support the principle meaning of motivation theory. For example, Vroom's (1964) expectancy theory explains that an individual will positively react if he/she clearly understands the value of consequences. While, Lawler's (1971) discrepancy theory posits that allocation of pays (e.g., actual income) equally with employee expectations (e.g., expected income) may affect individual positive reactions. In addition, Bies and Moag

(1986) interactional justice theory suggests that a person heavily concerns about good or bad treatment that he/she receives from another person may affect his/her behavior. Application of these theories in a performance based pay model shows that understand the value of consequences, feelings of pay equity and fairness treatment will enhance if management able to appropriately implement performance appraisal and pay communication in managing the pay systems. As a result, it may lead to greater job satisfaction (Money & Graham, 1999; Ismail et al., 2013), and organizational commitment (Hafer & Martin, 2006; Garib Singh, 2009). Hence, it was hypothesized that:

H1: Pay communication positively related to job satisfaction.

H2: Performance appraisal positively related to job satisfaction.

H3: Pay communication positively related to organizational commitment.

H4: Performance appraisal positively related to organizational commitment.

Methodology

This study employed a cross-sectional research design which allowed the researchers to integrate the performance based pay literature, the semi-structured interview, the pilot study and the actual survey as a main procedure to gather data. The main advantage of using this data collection procedure may help the researchers to gather accurate data, decrease bias data and increase quality of data being collected (Ismail et al., 2007; Sekaran & Bougie, 2013; Cresswell, 2014). This study was conducted at a district council in Peninsular Malaysia. For confidential reasons, the name of this organization is kept anonymous. This organization was established as an autonomy body in 1977 to develop this district as important service and business centers, garden urban and urban transit in Southern Peninsular Malaysia. In order to achieve this

objective, Human Resource Division of the organization has introduced a performance based pay in 1992 and the weaknesses of implementing this pay system was improved in 2002 and 2013 as an important mean to attract, retain and motivate competent employees in accomplishing its goals. The effectiveness of this pay system is often highlighted by management of the organization, but its effectiveness has not been empirically tested by outsiders. Under a mutual understanding between the researchers and management of this organization, a small research project has been implemented for three months in 2014 to discover the effect of implementing this pay system on employee attitudes and behavior in the organization.

At the initial stage of this study, a survey questionnaire was drafted based on the performance based pay literature. Next, the semi-structured interview was conducted involving five employees in the management and professional group. These employees were selected using a purposive sampling because they had working experiences for more than five years and showed good knowledge and able to describe clearly (Bernard & Ryan, 2010) about compensation management system in the organization. The information obtained from this interview helped the researchers to understand the nature (Ahmad Sunawari, 2009) and features of performance based pay and job satisfaction, as well as the relationship between such variables in the context of this study. Then, a pilot study was done by discussing the survey questionnaire with the interviewed participants in order to verify the content and format of survey questionnaire for an actual study. Further, 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 (Sekaran & Bougie, 2013; Cresswell, 2014).

The survey questionnaire used in this study consists of three sections. First, pay communication had 4 items and performance related pay had 5 items that were adapted from

the workplace performance based pay (Gomez-Mejia & Balkin, 1992b; ; Kim, 1996; 1999; Pettijohn et al., 2001; Greenberg, 1996; 2003; Milkovich et al., 2014). Third, job satisfaction had 3 items that were adapted from Warr et al.'s (1979) job satisfaction scale. Finally, organizational commitment 3 items that were adapted from Mowday et al.'s (1979) organizational commitment scale. All items used in the questionnaires 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 focused on employee perceptions.

The population of this study is 50 employees in the studied organization. The survey questionnaires were distributed to all employees in the organizations, and 50 usable questionnaires were returned to the researchers, yielding 100 percent of the response rate. The survey questionnaires were answered by participants based on their consents and on a voluntary basis. This figure meets a good decision model as suggested by Krecjcie and Morgan (1970), and exceeds the minimum sample of probability sampling, showing that it can be analyzed using inferential statistics (Sekaran & Bougie, 2013).

The SmartPLS 2.0 was employed to analyze the survey questionnaire data because it has the capability to deliver latent variable scores, avoid small sample size problems, estimate every complex models 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., 2009; Ringle et al., 2010). The procedure of data analysis is: first, confirmatory factor analysis was used to assess the validity and reliability of instrument. Second, Pearson correlation analysis and descriptive statistics were employed to estimate the validity and reliability of constructs. Third, SmartPLS path model analysis was utilized to test the hypothesized model. The outcomes of this test will clearly show the significant relationship between the independent variable and the dependent variable if the value of t statistic larger than 1.96 (Henseler et al., 2009). The value of R² is used as an indicator of the overall predictive strength of the model. The value of R² are considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998; 2001; Henseler, Ringle & Sinkovics, 2009). In addition, 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 R², showing that it adequately support the PLS path model globally (Wetzels et al., 2009).

Result and Discussion

Table 1 shows that majority respondents were females (60 %), ages between 26 to 30 years old (58 %), Diploma holders (54 %), permanent staff (86 %), working experiences from 2 to 4 years (48 %), and monthly salary between RM2001 to 2500 (38 %).

Table 1: Respondents' Characteristics (N=50)

Sample Profile	Sub-Profile	Percentage
Gender	Male	40 %
	Female	60 %
Age	Less than 25 years	18 %
	26 to 30 years	58 %
	31 to 40 years	18 %
	41 to 45 years	6 %

Education	SPM/MCE	4 %
	Diploma	54 %
	Bachelor	42 %
Type of Service	Permanent	86 %
	Contract	14 %
Length of Service	Less than 2 years	14 %
	2 to 4 years	48 %
	5 to 7 years	28 %
	8 to 10 years	4 %
	11 to 13 years	2 %
	More than 14 years	4 %
Salary (Malaysian Ringgit)	1000 to 1500	22 %
	1501 to 2000	30 %
	2001 to 2500	38 %
	2501 to 3000	8 %
	> 3001	2 %

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

Validity and Reliability of the Instrument

Table 2 shows the results of convergent and discriminant validity analyses. All concepts had the values of average variance extracted (AVE) larger than 0.5, indicating that they met the acceptable standard of convergent validity (Barclay et al., 1995; Fornell & Larcker, 1981; Henseler et al., 2009). 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 (Yang, 2009).

Table 3 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., 2009). In sum, the validity of the measurement model met the criteria. Besides that, the values of composite reliability were greater than 0.8, indicating that the instrument used in this study had high internal consistency (Nunally & Bernstein, 1994; Henseler et al., 2009).

Table 2: The Results of Convergent and Discriminant Validity Analyses

Variable	AVE	Participation	Allocation	Job Satisfaction	Organizational Commitment
Pay Communication	0.671905	0.8197			
Performance Appraisal	0.742397	0.661718	0.8702		
Job Satisfaction	0.604751	0.444469	0.469236	0.7776	
Organizational Commitment	0.757265	0.710415	0.828147	0.414856	0.8702

Table 3: The Results of Factor Loadings and Cross Loadings for Different Constructs

Construct/ Item	Pay Communication	Performance Appraisal	Job Satisfaction	Organizational Commitment	Composite Reliability
<u>Pay Communication</u>					0.890640
1. Reflect the organisation's goals and strategy.	0.847418	0.535151	0.257281	0.581954	
2. Consistent with the organisation's cultural values.	0.851214	0.570890	0.329918	0.498258	
3. Consistent with best practice	0.861082	0.667550	0.467487	0.691375	
4. Encourage to work hard.	0.709559	0.359441	0.367941	0.519499	
<u>Performance Appraisal</u>					0.945194
1. Familiar with performance evaluation.	0.271962	0.801625	0.271383	0.672911	
2. Appraise employees' abilities	0.692550	0.928636	0.217566	0.802906	
3. Sufficient reasons in performance evaluation.	0.708287	0.893576	0.423871	0.696266	
4. Determine scores based on employees' contributions.	0.551242	0.864514	0.423817	0.711508	
5. Salary raise based on job performance.	0.564037	0.810885	0.594269	0.681570	
6. Provide highest rewards for productive workers	0.595972	0.863722	0.456272	0.711295	
<u>Job Satisfaction</u>					0.819143
1. Recognition	0.499255	0.490230	0.898868	0.296121	
2. Responsibility	0.160077	0.296615	0.701450	0.367424	
3. Industrial relations	0.264581	0.229950	0.717117	0.378306	
<u>Organizational Commitment</u>					0.903170
1. Beyond normal effort	0.596944	0.671108	0.457084	0.804619	
2. As a great organisation	0.732451	0.738430	0.307330	0.928730	
3. Inspire to work best	0.516983	0.751612	0.328992	0.872837	

Analysis of the Constructs

Table 4 shows the results of Pearson correlation analysis and descriptive statistics. The means for all variables were from 4.9 to 6.1, signifying that the level of pay communication, performance appraisal, job satisfaction and organizational commitment ranging from high (4.0) to the highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., pay communication and performance appraisal) and the dependent

variable (i.e., job satisfaction and organizational commitment) were less than 0.90, indicating the data were not affected by serious collinearity problem (Hair et al., 2006). Hence, the reliability values for the constructs were 1.0 were shown in a diagonal, indicating 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 (Nunally & Bernstein, 1994; Hair et al., 2006).

Table 4: Pearson Correlation Analysis and Descriptive Statistics

Variable	Mean	Standard Deviation	Pearson Correlation Analysis (r)			
			1	2	3	4
1. Pay Communication	4.9	.61	1			
2. Performance Appraisal	5.7	1.1	.67**	1		
3. Job Satisfaction	6.1	.70	.38**	.43**	1	
4. Organizational Commitment	5.8	.89	.69**	.83**	.45**	1

Note: Significant at ** $p < 0.01$

Reliability Estimation is Shown in a Diagonal

Outcomes of Testing Hypotheses 1 and 2

Figure 1 presents the quality of model predictions in the analysis was demonstrated by the score of R square. The inclusion of pay communication and performance appraisal in the analysis had explained 28 percent of the variance in job satisfaction. Specifically, the result of SmartPLS path analysis revealed three important findings: First, pay communication was positively and insignificantly correlated with job satisfaction ($\beta=0.20$; $t=0.94$), therefore H1 was not supported. Second, performance appraisal was positively and significantly correlated with job satisfaction ($\beta=0.37$; $t=2.13$), therefore H2 was supported. Third, pay communication was positively and significantly correlated with organizational commitment ($\beta=0.29$; $t=2.01$), therefore H3 was supported. Fourth, performance appraisal was positively and significantly correlated with organizational commitment ($\beta=0.64$; $t=4.45$), therefore H4 was supported. In sum, the result confirms that pay communication does not act as an effective determinant of job satisfaction, but performance appraisal does act as an effective determinant of job satisfaction. Conversely, pay communication and performance appraisal act as effective determinants of organizational commitment.

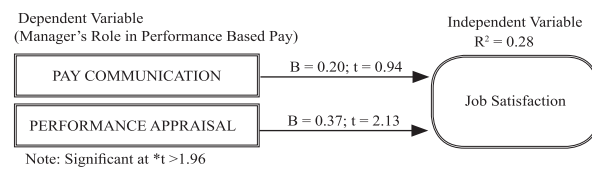


Figure 1: The outcomes of SmartPLS path model showing the relationship between manager's role in performance based pay and job satisfaction

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels et al.'s (2009) guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)} = 0.28$, signifying that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result confirms that the model provides strong support to validate the PLS model globally (Wetzels et al., 2009).

Outcomes of Hypotheses 3 and 4

Figure 2 presents the quality of model predictions in the analysis was demonstrated by the score of R square. The inclusion of pay communication and performance appraisal in the analysis had explained 73 percent of the variance in organizational commitment. Specifically, the result of SmartPLS path analysis revealed three important findings: First, pay communication was positively and significantly correlated with organizational commitment ($\beta=0.29$; $t=2.01$), therefore H1 was supported. Second, performance appraisal was positively and significantly correlated with organizational commitment ($\beta=0.64$; $t=4.45$), therefore H2 was supported. In sum, the result confirms that

pay communication and performance appraisal act as effective determinants of organizational commitment.

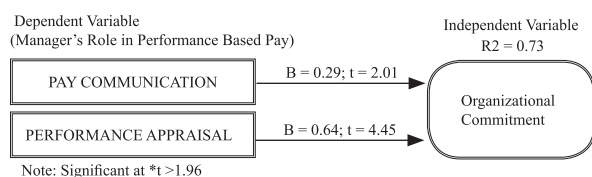


Figure 2: The outcomes of SmartPLS path model showing the relationship between manager's role in performance based pay and organizational commitment

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels et al.'s (2009) guideline as follows: $GoF = \sqrt{\{MEAN(Community of Endogenous) \times MEAN(R^2)\}} = 0.73$, signifying that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result confirms that the model provides strong support to validate the PLS model globally (Wetzels et al., 2009).

The results of this study confirm that the pay communication does not act as an effective determinant of job satisfaction, performance appraisal does act as an effective determinant of job satisfaction. Conversely, pay communication and performance appraisal act as effective determinants of organizational commitment in the organizational sample. In the context of this study, managers design and administer performance based pay based on in compensation policies and rules set up by their stakeholders. Majority respondents perceive that the levels of pay communication, performance appraisal, job satisfaction and organizational commitment are high. This situation describes that managers have taken high initiatives to openly communicate the information about performance based pay, but it may not be able to enhance employees' job satisfaction. Conversely, the willingness of managers to appropriately implement performance appraisal in determining performance based pay may lead to enhanced employees' job satisfaction in the organization.

This study provides three implications: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study highlight three major outcomes: Firstly, pay communication has not been an effective determinant of job satisfaction. A careful observation of the semi-structured interview results shows that this finding may be affected by external variables: First, management often practices communication openness in delivering general information about performance based pay and practice communication secrecy in delivering the process and systems of distributing rewards based on performance. Second, individual managers have different capabilities and motives in explaining and handling employees' complaints and demands about pay decisions. These factors may overrule the effect of pay communication on job satisfaction in the organization. Second, performance appraisal has been an effective determinant of job satisfaction. This result is consistent with studies by Money and Graham (1999), and also by Ismail et al. (2013). Third, pay communication and performance appraisal have been effective determinants of organizational commitment. This result is consistent with studies by Hafer and Martin (2006), and also Garib Singh (2009).

With respect to the robustness of research methodology, the survey questionnaires used in this study have met the requirements of validity and reliability analyses. This could lead to produce accurate and reliable research findings. In terms of practical contributions, the findings of this study may be used to improve the design and administration of performance based pay in organizations. The objective may be achieved if management considers the following aspects: Firstly, align the compensation strategy and goals according to internal and external organizational challenges in order to meet employees' expectations, increase employees' standards of living and statuses in society, as well as attract, retain and motivate them to continuously support their organizational

mission and vision. Secondly, the content and methods of leadership development program should be tailored to current organizational strategy and goals. For example, the content of leadership development program should emphasize on developing managers' creative soft skills such as able to stimulate employees' intellectuals in doing a job, respect employees' voices, counsel employees to increase their potential to achieve better career, learn new problem solving skills approach and share the organizational interests. This useful knowledge and skills will be easily understood and practiced by managers to handle and solve employees' complaints and demands if they are taught and guided by competent trainers using three training techniques, namely oral skills, hands on skills and team building skills. Finally, the main suggestion for the employer to emphasize the desirable values and Islamic teachings in themselves and for all employees to carry out its duties in good faith for the sake of Allah and also stress on quality relationships between fellow employees. If organizations pay attention to these suggestions it may lead employees who work in different hierarchical levels and categories to accept and achieve the workplace compensation strategy and goals, not only while working in the organization, but have pleasure in the Hereafter.

Conclusion

This study suggested a conceptual framework based on the performance based pay research literature from western scholars and also from the Islamic perspective. The confirmatory factor analysis confirmed that the instrument used in this study met the acceptable standards of validity and reliability analyses. The outcomes of SmartPLS path model analysis showed three important findings: First, pay communication was positively and insignificantly correlated with job satisfaction, therefore H1 was not supported. A careful observation of the semi-structured interview results shows that this finding may be affected by two external variables, that is the ability of management to practice

communication openness and communication secrecy in delivering information about performance based pay, and individual managers have different capabilities and motives in explaining and handling employees' complaints and demands about pay decisions. These factors may overrule the effect of manager's role in performance based pay on job satisfaction in the organization. Second, performance appraisal was positively and significantly correlated with job satisfaction, therefore H2 was supported. Third, pay communication and performance appraisal were positively and significantly correlated with organizational commitment, therefore H3 and H4 were supported. The results of H2, H3 and H4 also have supported and broadened performance based pay studies mostly published in Western countries. Therefore, present research and practice within the workplace pay model needs to consider pay communication and performance appraisal as critical components of the performance based pay domain. This study further suggest that the ability of managers to appropriately implement pay communication and performance appraisal in performance based pay will strongly invoke positive subsequent employee outcomes (e.g., performance, fairness, trust, ethics and competitiveness). Thus, these positive outcomes may lead to maintained and support stakeholders' needs and expectations in an era of globalization. The more important aspect is the spiritual values that instilled in each employees to do the job sincerity for the sake of blessing from Almighty God.

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