

## Article

# The Influence of Fairness for Performance Salary on Employee Pay-Satisfaction

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**Abstract:** A structural equation model was constructed to investigate the relationship between performance-based pay, fair salary distribution, fair salary procedures, external fairness of salary, and salary satisfaction. State owned enterprises and small and medium-sized private enterprises in Beijing and Xi'an were selected as research objects, and the causal relationships between the various elements in the model were empirically analyzed using on-site distribution and entrusted distribution methods. The model was then revised. Research has found that the strength of performance-based pay can significantly positively affect both procedural fairness and external fairness in compensation; Fair salary distribution and fair salary procedures can significantly positively affect salary satisfaction.

**Keywords:** performance-based compensation; fair compensation; salary satisfaction

## 1. Introduction

In recent years, with the gradual improvement of state-owned enterprise system reform and the emergence of private enterprises, enterprises have become increasingly aware of the need to establish internal and external salary fairness mechanisms that are in line with the trend of the times, in order to better motivate employees. Performance based compensation has effectively solved this problem and has become a widely adopted compensation incentive method in organizations. However, due to the fact that the results of performance-based pay distribution are based on performance evaluation, higher demands are placed on the fairness of performance-based pay in the implementation process. This is because enterprises not only need to pay attention to the fairness of salary distribution results, but also to the fairness of performance evaluation procedures; Not only should we focus on internal fairness in compensation, but also on external fairness in compensation. Therefore, research on performance-based compensation and its fairness has become a hot topic in the field of human resource management.

Research has found that in the process of salary implementation, fairness in salary distribution, salary procedures, salary interaction, and information fairness can have a positive impact on employees (Wu Xiaoyi, Wang Chunxiao, 2006); McFarlin and Sweeney (1992) pointed out that fair compensation distribution is more effective in predicting employee compensation satisfaction than fair compensation procedures. Similar studies both domestically and internationally emphasize the importance of fair internal management of compensation on individual impact, which has implications for performance-based compensation that emphasizes process and outcome fairness. However, the impact of performance-based pay on employees is not only influenced by internal management fairness, but may also be influenced by external fairness, and the degree of impact may vary depending on individual self-efficacy. Therefore, it is worth conducting in-depth research and analysis on these issues.

Published: 11 October 2024



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Based on the relevant theories of salary fairness, this article divides the internal fairness of performance-based pay into two dimensions: fairness in salary results and fairness in salary procedures. It proposes a relationship model between performance-based pay, internal fairness in salary, external fairness in salary, and salary satisfaction. Empirical analysis is conducted on the relationship between variables, and the model is revised based on the empirical results and relevant theoretical basis. Finally, relevant conclusions are analyzed.

## 2. Theory and Hypothesis

### 2.1. *The Relationship Between Performance-Based Compensation and Internal Fairness in Compensation*

The degree of closeness between performance and compensation can reflect the internal fairness of performance-based compensation. In other words, when the external performance of compensation better represents the efforts you have made, the subjective perception of the individual's results is fair. The fairness of this result first reflects the fairness of distribution. Generally, when we believe that our performance and compensation are in line with the actual situation, we do not doubt the fairness of the distribution results of our organization. Moreover, the more transparent the distribution system is, and the more employees have a clear understanding of the distribution rules, the individual will also recognize the fairness of the organization's procedures. Campbell et al. (1998) found that the performance-based compensation model can enhance employees' control over compensation and significantly enhance their perception of fairness in compensation. Van Yperen and De Craaff (2005) found through experiments that performance-based compensation is more effective in reflecting organizational fairness than position based compensation. Whether from a theoretical analysis perspective or from the results of practical research, performance-based pay has an impact on organizational fairness. Therefore, in this study, we believe that performance-based pay can significantly predict the internal distribution fairness and procedural fairness perception of organizational employees towards compensation. When individual performance is more closely related to compensation, it can better reflect the distribution fairness and procedural fairness of compensation. Based on this, we propose the following hypothesis:

H1: performance-based compensation can significantly and positively affect employee's sense of fairness in salary distribution;

H2: performance-based compensation can significantly and positively affect the fairness of employee compensation procedures.

### 2.2. *The Relationship Between Performance-Based Compensation and External Fairness of Compensation*

The stronger the connection between performance and compensation, the higher the organization's commitment to performance-based compensation. Employees in the enterprise tend to improve their performance through hard work to achieve a higher level of compensation, making their compensation competitive externally. Employees have a high perception of external fairness in compensation. On the contrary, for companies with low commitment to performance-based compensation, performance-based compensation cannot effectively improve employee work performance, ultimately resulting in low performance and low salary levels among their employees. Therefore, compared with companies with high external competitive compensation, their employees have lower awareness of external fairness in compensation. Based on this, the hypothesis is proposed:

H3: performance-based compensation has a significant positive impact on external fairness in compensation.

### 2.3. *The Relationship Between Internal Fairness of Salary and Salary Satisfaction*

Oldham (1986) found empirically that fairness in distribution can significantly affect employee compensation satisfaction. Subsequently, in Folger and Konovsky's (1989) study, it was found that there is a significant positive relationship between procedural fairness and salary satisfaction, but distributive fairness is clearly more significant than the impact of procedural fairness on salary satisfaction. Sun Wei (2005) found after re-research that there is a positive correlation between the three dimensions of fair salary distribution, fair salary procedures, and fair salary interaction in work organizations and employee salary satisfaction. Based on the above discussion, this article believes that:

H4: salary distribution fairness has a significant positive impact on employee salary satisfaction.

H5: The fairness of the salary program significantly positively affects employee salary satisfaction.

### 2.4. *The Relationship Between External Fairness of Salary and Salary Satisfaction*

External fairness in compensation can better reflect the value of employees. The more an organization has external fairness in compensation, the higher the recognition and satisfaction of its employees towards the organization. Employees obtain self-awareness of their salary level through external comparison of compensation organizations, and the gap between external compensation can affect their level of engagement in work (Lazer, 2001). Ren Hualiang (2007) found through a survey of salary satisfaction among highly educated employees that external fairness in salary has a significant impact on the satisfaction of this group of people. The more educated employees are, the less they can tolerate external unfairness in salary. Wang Bingcheng (2011) found that external fairness in compensation has a significant positive impact on the satisfaction of highly diligent and upright employees with compensation. Based on this, a hypothesis is proposed:

H6: The external fairness of H6 salary has a significant positive impact on employee salary satisfaction.

### 2.5. *The Moderating Effect of Self-Efficacy on the Relationship Between External Fairness of Salary and Salary Satisfaction*

When an individual has higher salary expectations, they will pay more attention to external fairness in compensation. Conversely, when an individual does not have high expectations for their own salary, they will not pay much attention to whether the salary is external fairness. Lou Huayong (2010) believes that self-efficacy can determine the level of employee salary expectations. Employees with high self-efficacy have higher salary expectations, while those with low self-efficacy have lower salary expectations. Therefore, in the process of external fairness affecting employee salary satisfaction, employees with high self-efficacy have higher salary expectations. Compared to employees with low self-efficacy, they are more sensitive to external fairness in salary, and any external unfairness will have a significant impact on their salary satisfaction. On the contrary, employees with low self-efficacy may be more content with the status quo and less sensitive to external fairness. Based on this, this article believes that:

Compared to employees with low self-efficacy, employees with high self-efficacy are more sensitive to external fairness in compensation, that is, self-efficacy has a significant moderating effect on the relationship between external fairness and satisfaction in compensation.

## 3. Research Methods

### 3.1. *Samples*

The survey conducted by our research institute mainly focused on the locations of employees in Beijing and Xi'an. The types of enterprises included state-owned enterprises and small and medium-sized private enterprises. The survey was conducted through on-

site distribution and commissioned distribution, with a total of 240 questionnaires distributed and 190 collected. After excluding invalid questionnaires, a total of 183 valid questionnaires were collected. Among the surveyed subjects, 65% were males and 35% were females; From a job perspective, general employees account for 27.3%, grassroots management personnel account for 38.3%, middle-level management personnel account for 29%, and senior management personnel account for 5.4%; From the perspective of educational programs, associate degrees account for 9.8%, undergraduate degrees account for 60.7%, and graduate degrees account for 29.5%.

### 3.2. Measurement Tools

The independent variables in this study include performance-based pay, fairness in salary distribution, fairness in salary procedures, external fairness in salary, salary satisfaction, and self-efficacy. The measurement of performance-based compensation adopts Deckop's (1999) study on the strength of the relationship between employee subjective perception of performance and compensation to reflect individual based performance-based compensation, which includes three items: expected income framework, compensation payment framework, and performance evaluation variables. The scale of the measurement of fair distribution of compensation in Hui (2008) includes four items: fair compensation results, fair program execution, fair leadership evaluation, and fair information provision. The fair borrowing and use of the scale developed by Scarpello (1999) in the salary program includes four items: salary decision-making, litigation, performance evaluation, and communication related to salary. The measurement of external fairness in compensation is based on the scale developed by Li Xi (2010), which includes three items: work values, perception of compensation system, and perception of compensation fairness. The measurement of salary satisfaction was based on the PSQ scale proposed by Heneman and Schwab, which includes four items: salary level, salary improvement, welfare level, and salary structure. The measurement of self-efficacy was conducted using the internationally recognized GSES scale. This study included five items: "If I try my best, I can always solve problems.". The above scales were all scored using the Likert five point scoring method, and the reliability of the scales was analyzed using SPSS software. The alpha coefficients of each subscale reached the standard of 0.7 or above, which meets the research needs.

## 4. Results Discussion

### 4.1. Research Results

On the basis of the conceptual model, a structural equation model was established and the initial model path coefficients were estimated. The results showed that except for the insignificant impact of external fairness on salary satisfaction, all other hypotheses passed the significance test, and the chi square degree of freedom ratio of the model was 3.279.

Due to the fact that the perceived fairness of internal salary distribution by individuals is likely to be based on external fairness, that is, only when individuals have a high perception of external fairness in their own compensation, will they recognize the fairness of internal salary distribution within the organization. Therefore, in the initial model, the path relationship between external fairness and salary satisfaction was removed, and the path between external fairness and distribution fairness was set to be freely estimated. A path relationship model from external fairness to distribution fairness was established, and it was re-estimated. At this time, the chi square degree of freedom ratio was 3.006. Compared with before, its fitting index has improved significantly, but it is still not ideal. Further correction is needed. On the basis of this time, first, delete the paths that did not pass the significance test; Secondly, in organizations, reasonable and fair procedures can ensure reasonable and fair results. Without the protection of fair procedures, there will be

no fair distribution of results. Therefore, establish a path from program fairness to distribution fairness, set their relationship as freely estimated, obtain this model, and estimate the model. The chi square degree of freedom ratio is 2.832, ranging from 1 to 3. At this point, the model has good adaptability and acceptable fit. However, at this point, it is shown that the main fitting indices of the model, CFI, IFI, and TLI, have not reached a level above 0.9. Therefore, based on this model, the residual variables between (e14, e20), (e7, e22), (e2, e9), (e10, e6), and (e14, e4) are covariantly correlated. The total model is obtained and estimated, and the results and fitting indices have good compatibility. The chi square degree of freedom ratio of the model is 2.044, which is acceptable. At this point, the final revised model is obtained, with the path coefficient on it being the standardized value.

#### 4.2. Results Discussion

According to the final revised model of the study, performance-based pay does not have a significant positive impact on distribution fairness, and H1 did not pass the test. This indicates that the strength of the connection between performance and compensation does not have a significant impact on the perception of fairness in employee compensation distribution. The stronger the connection, the more credible the organization's compensation policy implementation procedures are, the more guaranteed the procedures are, and the greater the fairness of the compensation procedures can be reflected (H2 passed). In other words, when employees believe that overtime will definitely receive corresponding compensation, they will consider it reasonable for the company to do so, and the company's compensation procedures are trustworthy and fair; However, the remuneration for overtime work does not reflect fairness in distribution, as fairness in distribution mainly depends on the remuneration of others for overtime work and the completion of their own tasks. Performance based compensation can significantly affect external fairness in compensation. The establishment of H3 indicates that the stronger the connection between performance and compensation, the more likely employees are to improve their performance level through efforts, thereby making their compensation competitive and reflecting external fairness. Fair salary distribution and fair salary procedures have a significant positive impact on employee salary satisfaction. The establishment of H4 and H5 further confirms the previous research on the positive correlation between internal salary fairness and salary satisfaction. However, H6 does not hold true, meaning that the impact of external fairness on salary satisfaction is not significant, which is due to the moderating effect of self-efficacy (H7 holds true). This is because the lower external fairness perception of employees with low self-efficacy and the higher external fairness perception of employees with high self-efficacy offset each other, resulting in a lower sensitivity to external fairness in the overall sample and a less significant impact on employee salary satisfaction. The establishment of H7 indicates that compared to employees with low self-efficacy, employees with high self-efficacy are more sensitive to external fairness, because high external fairness truly reflects their value.

#### 5. Conclusions

In the test of the moderating effect of self-efficacy in this article, the grouping processing is not perfect, and the division of low self-efficacy and high self-efficacy needs to be more scientifically and reasonably determined. Secondly, this article defines performance-based pay from the perspective of the strength of the connection between performance and compensation. The research is inevitably not comprehensive enough, and specific structural divisions of performance-based pay should be made to analyze the impact of different models of performance-based pay on employees. Again, this article only considers two dimensions of salary fairness, and future research should focus on the impact of salary fairness on employees from a broader perspective.

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