

Shetye, T., & Poncheri, R. M. (2005, February). *The relationship between perceptions of justice and intent to leave in a skill-based pay system*. Paper presented at the annual Industrial-Organizational/Organizational Behavior (IOOB) Graduate Student Conference, Melbourne, FL.

The Relationship between Perceptions of Justice and Intent to Leave in a Skill-Based Pay System

Tara Shetye
Surface, Ward, & Associates
North Carolina State University

Reanna M. Poncheri
North Carolina State University
Surface, Ward, & Associates



FEBRUARY 2005

APPROVED FOR PUBLIC RELEASE;
DISTRIBUTION UNLIMITED

Copyright Notice

This document and its content is copyright ©1997-2010 of SWA Consulting Inc. All rights reserved.

Any redistribution or reproduction of part, or the entire document in any form is prohibited except for: (1) you may print or download to a local hard disk extracts for your personal and non-commercial use only, and (2) you may copy the content to individual third parties for their personal use, but only if you acknowledge the website and author(s) as the source of the material. You may not, except with our express written permission, distribute or commercially exploit the content, nor may you transmit it or store it on any other website or other form of electronic retrieval system.

Shetye, T. & Poncheri, R. M. (2010, February). *The relationship between perceptions of justice and intent to leave in a skill-based pay system*. Paper presented at the annual Industrial-Organizational/Organizational Behavior (IOOB) Graduate Student Conference, Melbourne, FL.

The Relationship between Perceptions of Justice and Intent to Leave in a Skill-Based Pay System

Tara Shetye

North Carolina State University/Surface, Ward, & Associates

Reanna Poncheri

North Carolina State University/Surface, Ward, & Associates

Previous research indicates that skill-based pay systems can fail if procedural justice is low. The current study demonstrates that increased desire to leave can also occur. Using confirmatory factor analysis, perceptions of the motivating effect of SBP and ratings of fairness were found to be related to intent to leave.

Recent research in the area of compensation has emphasized the growing popularity of skill-based pay (SBP) systems. In SBP systems, employees are paid a bonus as a reward for acquiring skills useful to the organization (Ledford, 1995). Despite the fact that this type of compensation is being used more frequently in organizations, research related to this topic in the field of industrial/organizational psychology is lacking.

Literature regarding SBP systems has consistently emphasized the positive outcomes that follow its implementation. In a recent paper Lee, Law, & Bobko (1999) indicated that implementation of SBP systems is associated with increased organizational flexibility, employee productivity, and employee satisfaction in addition to decreased absenteeism and turnover. However, as Lee et al. (1999)

point out, there has been little exploration of the conditions that are associated with the occurrence of these outcomes.

One condition proposed by Lee et al. (1999) is the perception of procedural justice relating to the SBP plan. The procedural justice literature suggests that if the procedures relating to a system are perceived as unfair, the system will fail to work. Levanthal's (1976) first three rules of procedural justice state that (1) decisions must be based on accurate information, (2) allocation procedures should be consistent over time and across people, and (3) all decisions must be correctable. These conditions clearly relate to SBP. Lee et al. (1999) found that when procedural justice attributions were low, the system failed to achieve the outcomes of increased satisfaction or flexibility. The current study attempts to expand upon this finding by

Note. Please do not cite without permission from the authors.

exploring the relationship between procedural justice attributions and intent to leave the organization. Another goal of this study is to determine if such attributions are separate from evaluations of the motivating effect of the plan.

The following research questions were examined:

Research Question 1: Are attitudes toward SBP unified, or split into several distinct factors?

Research Question 2: What is the relationship between attitudes toward SBP and intentions to leave?

Method

Participants

The participants in this study were 899 members of a large military organization. All members of this organization were invited to participate.

Procedure

Web-based surveys were administered during July and August of 2004. Participants were sent email notification and instructed to visit a link on a centralized website.

In addition to demographic questions and several sections regarding their training, participants were asked about their attitudes toward SBP. Items relating to motivation and fairness were included, as well as items addressing the respondent's intent to leave the military. These attitude items were the basis of the analysis.

Results

A three-factor structure was tested using confirmatory factor analysis. Although the chi-square goodness of fit test was

significant [$X^2(24, N = 331) = 95.3, p < .01$], the fit of the model was adequate. The fit indices met the requirements specified by Hatcher (1996) (NFI = .954, CFI = .965, RFI = .914, and RMSEA = .058). Table 1 contains the standardized factor loadings for each variable in the model. Factor correlations show a strong negative relationship between procedural justice attributions and intent to leave ($r = -.39, p < .01$). However, the relationship between motivation and intent to leave was not in the expected direction ($r = .16, p < .01$).

Discussion

This study demonstrates that implementing a SBP system should not be seen as a simple solution for organizations seeking to improve flexibility and decrease turnover. Lee et al. (1999) previously demonstrated that unfair compensation systems do not achieve the desired outcomes of flexibility and increased skills. This study demonstrates that low procedural justice attributions may not only result in the inability to achieve desired outcomes, but also be related to increased turnover as organizational members become frustrated at the perceived unfairness of the system. Additionally, it was shown that focusing on improving the reward features of the system may not be sufficient. Employees may agree that the system is motivating, but still believe that it is unfair.

The current study is limited in that it measured only the respondent's intention to leave, rather than actual turnover rates. Additionally, the nature of the survey leaves the results susceptible to common method bias. This study is an initial step in developing an understanding of the relationship between skill-based pay procedures and organizational outcomes.

References

- Hatcher, L. (1996). *A step-by-step approach to using the SAS System for factor analysis in structural equation modeling*. Cary, NC: SAS Institute, Inc.
- Ledford, G.E., Jr. (1995). Designing nimble reward systems. *Compensation and Benefits Review*, 27(4), 46-54.
- Lee, C., Law, K., and Bobko, P. (1999) The importance of justice perceptions on pay effectiveness of a skill-based pay system. *Journal of Management*, 25(6), 851-873.
- Levanthal, G. S. 1976. Fairness in social relationships. In J. W. Thibaut, J. T. Spence, & R. C. Carson (Eds.), *Contemporary Topics in Social Psychology*: 211–240. Morristown, NJ: General Learning Press.

Table 1. Standardized Factor Loadings

Items (summarized)	Factors		
	Motivation	Procedural Justice	Intent to Leave
SBP motivates me to acquire skills.	.93		
SBP motivates me to maintain skills.	.91		
I am motivated to succeed because of SBP.	.62		
SBP procedures are fair.		.82	
SBP procedures are straightforward.		.70	
The amount of my SBP reflects my effort.		.60	
I will leave the organization if I cannot get training I need.			.96
I have considered leaving the organization.			.57
I intend to leave if requirements are increased.			.41

Note. Please do not cite without permission from the authors.

ABOUT SWA CONSULTING INC.

SWA Consulting Inc. (formerly Surface, Ward, and Associates) provides analytics and evidence-based solutions for clients using the principles and methods of industrial/organizational (I/O) psychology. Since 1997, SWA has advised and assisted corporate, non-profit and governmental clients on:

- Training and development
- Performance measurement and management
- Organizational effectiveness
- Test development and validation
- Program/training evaluation
- Work/job analysis
- Needs assessment
- Selection system design
- Study and analysis related to human capital issues
- Metric development and data collection
- Advanced data analysis

One specific practice area is analytics, research, and consulting on foreign language and culture in work contexts. In this area, SWA has conducted numerous projects, including language assessment validation and psychometric research; evaluations of language training, training tools, and job aids; language and culture focused needs assessments and job analysis; and advanced analysis of language research data.

Based in Raleigh, NC, and led by Drs. Eric A. Surface and Stephen J. Ward, SWA now employs close to twenty I/O professionals at the masters and PhD levels. SWA professionals are committed to providing clients the best data and analysis with which to make solid data-driven decisions. Taking a scientist-practitioner perspective, SWA professionals conduct model-based, evidence-driven research and consulting to provide the best answers and solutions to enhance our clients' mission and business objectives. SWA has competencies in measurement, data collection, analytics, data modeling, systematic reviews, validation, and evaluation.

For more information about SWA, our projects, and our capabilities, please visit our website (www.swa-consulting.com) or contact Dr. Eric A. Surface (esurface@swa-consulting.com) or Dr. Stephen J. Ward (sward@swa-consulting.com).