
Unpacking the ‘black box’ in the relationship between pay-for-performance, employee benefits and performance

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Abstract: This research examined the effect of pay-for-performance (PFP) and employee benefits on employee performance with mediating effect of distributive fairness in the nexus. Through a cross-sectional approach, data were collected from a sample of 140 Nigerian employees. Partial least squares (PLS) method algorithm and bootstrap techniques were used to test the study's hypotheses. The results provided support for all the hypothesised nexuses indicating that PFP and employee benefits influence the performance of workers positively. Also, the result showed that distributive fairness mediates the relationship between PFP and employee performance, and between employee benefits and employee performance. The implication is that PFP and employee benefits can boost and enhance employee performance provided distributive fairness is perceived in the reward system that is operating in the firms. Hence, distributive fairness is an inextricable element in any reward system. Limitations and recommendations are discussed.

Keywords: PFP; pay-for-performance; employee benefits; distributive fairness; employee performance; partial least squares; HRM; human resource management; HR architectures; human capital; reward system; compensation; Nigeria.

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1 Introduction

Research findings, for example, the findings of Ahmed et al. (2013), Chang and Huang (2005), Fu (2013), Ismail (2014), Ismail et al. (2015a) and the host of others, are unanimous on the fact that human resources with knowledge and competencies are the key assets in assisting firms to survive and sustain their competitive advantage. Organisational performance is enhanced through employee-oriented HR architectures (i.e., HR practices) that can build-up employee capability, commitment and productivity (Posthuma et al., 2013). A firm that enhances its employee productivity and performance will continue to thrive and flourish (Gardner et al., 2011; Guerrero and Barraud-Didier, 2004; Way, 2002). On the other side, low productivity of the employees and poor employee performance can hamper the firms' progress as evident in the Nigerian context (Abdullah et al., 2011; Adu and Olatundun, 2007; Akiri and Ugborugbo, 2009; Ofoegbu, 2004).

Moreover, it has become imperative for the firms to develop strategies that can improve human resource performance which will consequently aid the accomplishment of their objectives. This is of great significance, because the ability of a firm to identify its business needs and its workforce needs, especially for highly productive workforce, is a reflection of accomplished competitive advantage of such a firm. HRM is poised to enhance firms' survival and effectiveness through human capital (Armstrong, 2005). Human capital owns the required skills, knowledge and competencies to execute strategy and planning in the firm. Hence, organisations should be well informed about how people are stimulated to achieve their full capabilities (Lawler, 2003). Likewise, human resource adds economic value to firms (Riordan et al., 2005). Numerous antecedents have been adduced to predict employee performance. Disparities in the levels of employee performance have been attributed to differences in skills and abilities, and different theories of reward (Boachie-Mensah and Dogbe, 2011). This is where the issue of reward management comes in. Reward has explained substantial variance in employee performance in the extant research while other variables, which are statistically represented as e (error term), explain the remaining parts that are not covered yet by reward (e.g., Boachie-Mensah and Dogbe, 2011; Ismail, 2014; Ismail et al., 2015a, 2015b).

Furthermore, substantial research studies, among which are Nyberg et al. (2013), Gerhart et al. (2009), Piekkola (2005), have examined the nexus between pay-for-performance (PFP) and employee performance. PFP, according to Milkovich et al. (2011), refers to pay that fluctuates with some measure of individual or organisational performance. PFP commonly involves merit and/or bonus pay. PFP is popular in many firms (Cohen, 2006), especially in the Western countries, given the fact that financial compensation has been deemed effective and efficacious (Locke et al., 1980). Also, PFP gains fame because it can induce action (Shaw and Gupta, 2007) and attitudes (Fulmer et al., 2003).

Despite that a good number of researches have indicated the positive nexus between PFP and performance, substantial literature has demonstrated little doubt about the relationship while some other studies indicate a negative nexus between the two variables. Such body of research includes Green (2010), Pink (2009) and Ariely et al. (2009). For example, Green (2010) and Pink (2009) have questioned the efficiency of PFP, while the findings of Ariely et al. (2009) and Lawler (2000) indicate scepticism regarding the efficacy of PFP. Precisely, Ariely et al.'s (2009) findings signify a negative nexus between PFP and performance. According to Pfeffer (1998), PFP does not encourage or motivate, while, as posited by Deci and Ryan (1980), it does emasculate intrinsic motivation, and stimulates detrimental employee competition (Deming, 1986). Also, PFP's effective application is not easy (Lawler, 2000). Hence, the findings of the extant research are inconclusive.

Moreover, compensation forms an integral part of HRM, and employee benefit is a vital constituent of total reward system. Pay is meant for attracting potential employees while benefit, as a constituent of compensation system, helps in retaining them (Carragher, 2011). Employee benefit serves as a financial security to employees, although it is costly to the organisation. The significance of employee benefit cannot be over-emphasised, considering the issue of constant upsurge in the cost of living, growing cost and increased complexity of healthcare system, and growing doubt about the accessibility of social security in the future (McGaughey et al., 2005). Consistent with two-factor theory, employee benefit system is a requisite for good working situation, since it would help

enhance employees' work-motivation and the consequent productivity (Hong et al., 1995). Employee benefit also affects some behaviours including absenteeism, turnover intentions, perceived organisational attractiveness for job seekers, organisational citizenship behaviours and job performance (Carragher et al., 2006a, 2006b; Gaiduk et al., 2009; Labatmediene et al., 2007). However, it is evident that this area of research is not adequately explored by researchers, as there is no such research in the context of Nigeria.

Although there are substantial research evidences which indicate HRM–performance nexus, numerous authors, among whom are Chadwick and Dabu (2009), Messersmith et al. (2011) and Boxall (2012), have highlighted and reiterated the existence of a 'black box' (i.e., unresolved issues or lacunas) within the relationship. Boxall (2012) posits that there is presence of issues in the direct HRM–performance nexus, and he referred to those issues as 'black box'. These authors have called for adoption of a mechanism (i.e., mediator) through which the 'black box' will be unpacked.

Consistent with scientific management approach and the extant stream of research which establishes pay–performance nexus, the higher the performance of employee, the higher the pay he or she would earn. In addition, scientific management approach is one sided in terms of fair incentive pay system (Ismail, 2006), while administrative management approach proposes financial incentives that will fairly represent employee effort, and consequently improve efficiency and productivity (Dessler, 2005; Hellriegel and Slocum, 1996).

People consider compensation as a measure of equity or justice, hence the slogan, 'equal work for equal pay'. This reflects the public outcry against discrimination of any kind in the distribution of rewards. Employees consider compensation as a return for services rendered. They see it as a reflection of their personal worth in terms of skills and abilities, as well as the education and training they have acquired (Boachie-Mensah and Dogbe, 2011; Milkovich, 1998). Notably, a careful observation of compensation–performance nexus reveals that the relationship is indirectly affected by perceptions of distributive fairness. Thus, investigating distributive fairness is a useful and appropriate contextual variable for this study. Distributive fairness is an organisational context that can positively or negatively influence that behaviour (Janssen, 2000; Moorman, 1991).

Additionally, extant research has revealed pay-performance relationship (Agwu, 2013; Jalaini et al., 2013), pay–distributive fairness relationship (Ismail, 2014; Ismail et al., 2015a, 2008; Janssen, 2004), and distributive fairness–performance relationship (Ismail, 2014; Ismail et al., 2015a). Also, Baron and Kenny (1986) posited that a particular construct can possibly perform the role of mediator if there is a relationship between the construct, independent variable and dependent variable, and there is relationship between the independent variable and dependent variable. Therefore, going by the above argument and the position of Baron and Kenny (1986), distributive fairness is logically and empirically fit to be the mechanism (mediator) through which the identified 'black box' will be unpacked.

Furthermore, while a good number of studies and empirical evidences have established the link between various types of compensation and employee performance (e.g., Agwu, 2013; Ajila and Abiola, 2004; Jalaini et al., 2013; Boachie-Mensah and Dogbe, 2011; Sajuyigbe et al., 2013), research on the effect of some aspects of compensation such as PFP and employee benefits on employee performance has eluded the attention of researchers. Also, this kind of research in the context of Nigeria is underscored by the need to motivate human capital through effective reward systems

since it has the required skills, knowledge and competencies to execute strategy and planning in the organisation (Lawler, 2003), the need to address the defective employee performance caused by compensation-related incessant strikes workers, the need to review poor reward system that gives rise to the nonchalant and lackadaisical attitudes of Nigerian workers (Ajayi, 2012; Atunbi, 2014), and the need to look into how workers can be motivated through pay, bonuses, and other benefits as recommended by Ajayi (2012) and Atunbi (2014).

On the basis of the above discussion, this research seeks to examine the effect of PFP and employee benefits on employee performance with the mediating role of distributive fairness in the nexus. Hence, this study becomes a unique research, being the research initiative that fills the existing research lacunas and contributes enormously to the improvement of employee performance and the present body of knowledge on PFP, employee benefits and employee performance. It would also serve as a useful reference for future and continuing studies. This study could be a useful guide for the policy and decision making as well as for academic resources.

2 Literature review and hypotheses development

In this important part of the research, extant literature relating to employee performance, PFP, employee benefit and distributive justice was surveyed and reviewed. Section 2 comprises Subsections 2.1, 2.2, 2.3, and 2.4. Subsection 2.1 deals with the conceptual background of the research constructs; employee performance, PFP, employee benefit and distributive fairness. Following this, PFP–employee performance nexus is examined via extant literature review in Subsection 2.2. Subsection 2.3 concentrates on the employee benefit–employee performance nexus, and Subsection 2.4 focuses on the mediating role of distributive justice.

2.1 Conceptual background of the research variables

2.1.1 Employee performance

Issues revolving around the concept of performance have substantially caught the attention of both researchers and practitioners. The reason is that monitoring performance has, due to the pressure of incessantly changing and dynamic nature of the environment, become necessary for the success of firms (Harif et al., 2013), and thus is a significant issue in the employer–employee dealings (Mensah, 2015). However, extant streams of research on performance are devoid of unanimity and consistency regarding the definition of the performance (Mensah, 2015). One thing is of interest here, some authors (e.g., Campbell, 1990; Lebas and Euske, 2002) posit that the performance should be defined and measured in relation to the context within which it exists. According to Lebas and Euske (2002), performance is among the so-called ‘suitcase words’. This means performance is a flexible concept which can be shaped by the context.

Moreover, employee performance has attracted numerous definitions. Among these definitions is that of Viswesvaran and Ones (2000) which described employee performance as the way in which an employee efficiently takes actions and contributes with behaviours that are consistent with firm’s goals. Similarly, Campbell et al. (1990)

defined employee performance as a concrete thing done by the employee with aim of contributing to the accomplishment of the firm's objectives.

At micro level, employee performance entails the activities and behaviours of a worker to be his part in the achievement of the firm's objectives (Ahmad and Shahzad, 2011; Aguinis, 2009). In relation to this definition, three facts are discernible; one is that, from behavioural perspective, employee performance should be based and determined by workers' outputs. The second fact is that employee performance should involve any behaviour that is relevant and requisite for the attainment of the firm's objectives, and the third fact is that employee performance is not one-sided; rather; multi-dimensional. Numerous performance-related studies have adopted different kinds of measures to measure employee performance in different contexts (Koopmans et al., 2011). In this study, employee performance measures employed by Omaro (2011) were deemed fit, given the fact that the measures were firstly employed in Africa, the context of this study.

Also, employee performance is basically outcomes achieved and accomplishments made at work. Performance refers to keeping up plans while aiming for the results. Performance evaluation is the heart of performance management (Cardy, 2004). However, the performance of an individual or an organisation depends heavily on all organisational policies, practices and design features of an organisation.

Furthermore, managing individual performance involves measuring performance and allocating remuneration, and good performance involves employee's ability and motivation. Also, enhanced performance can be stimulated via HR policies and practices, good planning, enabling environment, setting performance goals and standards, provision of appropriate resources, guidance and support from the managers (Torrington et al., 2008).

2.1.2 Pay-for-performance (PFP)

It has been recognised by scholars, for example, Gerhart and Rynes (2003), Gerhart et al. (2009) and Nyberg et al. (2013), that one management architecture (HR practice) that has been widely held to be a predictor of employee performance is PFP. While Gerhart and Rynes (2003), Gerhart et al. (2009) termed it '*pay-for-performance*', Milkovich et al. (2011) referred to it as "*pay that varies with some measure of individual or organizational performance*". PFP refers to a method through which individual or group performance is directly and monetarily compensated (Armstrong, 2005). Boachie-Mensah and Dogbe (2011) posited that PFP is a scheme that aimed at compensating employee based on his or her performance. Performance incentive scheme is that of a foundation upon which individual employee and organisations rest. In as much as an employee acknowledges when, why and what is expected of him in terms of tasks, then the organisational goals are attainable and the employee feels empowered (Kanji, 2005).

Furthermore, PFP is described as a reward given to an employee within a compensation range that is competitive with that paid for similar work in the community and industry. It is also based upon merit as empirically appraised in the firm's performance appraisal program, with a chance to receive above market pay for employees demonstrating exceptional performance (Matsumura and Shin, 2004).

Historically, PFP dates back to 19th century. In those days, piece-work system was in place, which involved using performance appraisal for pay-raise determination. This system is called merit program, and it cut across both the public and private organisations (Schiller, 1996). Following this period, adoption of merit pay system diminished, and

PFP became popular, as the traditional merit program faded away in 1990s. PFP has three parts: defining performance, measuring performance and feeding back performance evidence. PFP indicates which kind of performance is important to the organisation, it evaluates those kinds of performance through performance evaluation to administer employees' performance and it gives feedback to employees through performance feedback gatherings in order to enable them to adjust their performance to the organisation's goal (Noe et al., 2000).

PFP entails among others merit pay bonus pay, gain sharing and profit sharing. However, merit pay and bonus pay are most common PFP (Cohen, 2006; Gerhart and Rynes, 2003) and are more closely linked to individual performance than are group- or organisational-based rewards, given the more direct line-of-sight between job performance and reward (Lawler, 1971). Merit pay is an incremental increase in base salary used to recognise past performance while bonus pay is a lump sum cash payment used to recognise past performance (Milkovich et al., 2011). Each rewards past performance and sets future expectations.

The present time is characterised by the adoption of PFP by the firms. PFP is basically poised to create a direct nexus between employees' pay and their performance. Consequently, this bolsters the efficacy and effectiveness of the workers. In a PFP system, an employee has the opportunity to earn extra pay above his or her basic pay if his or her productivities surpass the set standard (Grobler et al., 2006).

2.1.3 Employee benefits

Employee performance, according to Blumen (2015), is a requisite for business–society stability. The concept of employee benefits has been the focus of researchers since three decades ago, and it has attracted diverse definitions and conceptualisations and a good number of empirical studies have been conducted in its respect (Ashkanasy et al., 2000). It has been established by compensation research that employee benefits stimulate employee commitment, identity and direction and then enhance performance. Employee benefits refer to a part of reward system given by the organisation alongside with other forms of monetary reward (Armstrong, 2010). Realistically, it is the benefits that actually attract and retain talented and high performers.

Employee benefits include retirement schemes, holiday, pensions, share ownership, paid leave and allowances. Pension, as an important element of employee benefits, can induce and retain high performance employees because pension plays a role in the competitive total reward system. Among the advantages of welfare benefits are that it enhances employee wellbeing at work and at home. Welfare benefits include sporting facility, stock purchase, insurance schemes and savings plans. Some welfare benefits are legally required and binding as well. Chung (2006) added subsidised meals, financial assistance, company car, clothing allowance, personal needs, mobile phone credit and petrol allowance, etc., as part of employee benefits.

The range and scope of employee benefits are developing swiftly and the outcome of the benefits have the possibility to influence almost every aspect of a worker's life. For benefits to have a positive influence on an individual employee, it requires individual employees to know and understand the benefits their employer currently offers. On the part of employers, they must understand their employees, what they want from individual products and their motivation to acquire them. This will enable them to identify the merits, scope and possible influence of employee benefits (Pegg, 2009).

Successfully communicating the advantages, scope and potential effect of benefits presents a real opportunity for employers. Research undertaken by the Chartered Institute for Personnel and Development (CIPD, 2007) indicates that the better benefits are communicated, the more workers appreciate their employers and employee benefits, the better their commitment and engagement (CIPD, 2007).

2.1.4 Distributive fairness

On the basis of the taxonomy discerned from the stream of organisation-related research (e.g., Colquitt et al., 2001; Schwepker Jr., 2016), organisational fairness is of distributive, procedural and procedural and interactional fairness. Distributive fairness, around 1975, was the first component of organisational justice. Procedural fairness then became the second component while interactional became the third component (Colquitt et al., 2001). Past scholars have indicated that distributive fairness forms an essential part of organisational justice which, in the long run, ensures employees' satisfaction in the organisation (Adams, 1965; Colquitt et al., 2001; Greenberg, 2004). Justice implies employees' perceptions of justice within the organisation. According to Janssen (2004), an employee would usually investigate the link between the inputs he contributed and rewards he received compared to others to ascertain whether it is fair. Likewise, according to the equity theory of Adams (1965), it is pretty normal that employees would make a comparison between their contributions to the organisation and the returns received from organisation as they would also compare it with others (Adams, 1965; Janssen, 2004). Distributive fairness should not be restricted to justice of payments; justice should also be reflected in a broad set of organisational outcomes such as promotions, rewards, punishment, work programs, benefits and performance evaluation.

Moreover, distributive fairness, which was described by Schwepker Jr. (2016) as fairness in reward allocation, involves not only justice in the pay, but also promotion, reward, punishment, work programs, benefits and performance evaluation. Workers would, in turn, perform their assigned tasks, if they receive fair reward (Ali and Mohsen, 2008), because distributive fairness denotes perceived fairness of the amount of compensation that employees receive (Folger and Konovsky, 1989). Also, distributive fairness refers to impartial distribution of compensation's constituents such as wages and benefits or promotions and recognition; it also involves how impartially workers evaluate the distribution. Evaluation of the distribution of reward is contingent on three basic standards: need, equality and equity. These three standards are not always respected in the firms (Carr et al., 2011).

Some theories give support to the concept of distributive fairness. Equity theory emphasises that employees expect fair outcomes with respect to pay, incentives, benefits, job security, recognition and perks in exchange for inputs in terms of education, effort, time, commitment and experiences they put in their jobs. An employee who believes that his inputs surpass what he gets as reward, would undoubtedly not be happy, this would affect job satisfaction and consequently affect performance (Adams, 1965). Cole and Flint (2004) stressed further that an employee who perceives justice in the reward given to him, would improve his job outcomes.

2.2 *Nexus among the variables of the research*

2.2.1 *PFP and employee performance*

Social science theories have revealed the process in which PFP stimulates employees to put more efforts and set that effort on the accomplishment of organisational performance objectives (Robbins, 2005). Performance and compensation of whatever pattern are inextricably connected. In the same vein, the effect of PFP on the performance of workers and overall organisational performance cannot be simply separated from the wider context of a firm's structures, management strategies and employees' system (Shilongo, 2013).

Nevertheless, some studies have indicated that PFP is negatively related to performance (e.g., Ariely et al., 2009). Authors and practitioners have expressed doubt in the effectiveness of PFP (Lawler, 2000), the popular press criticises it as well (Green, 2010). Pfeffer (1998) opined that PFP does not boost morale as Deci and Ryan (1980) posited that PFP weakens intrinsic motivation. PFP stimulates unwanted employee competition (Deming, 1986), and is difficult to effectively implement (Lawler, 2000). In addition, some studies have indicated less positive links between PFP system and employee performance, while some studies have argued that implementation of PFP system ultimately creates the major obstacle to its success. It is not that employees do not like the system (Egger-Peitler et al., 2007). Perry et al. (2009) added that poor implementation and poor management practices are the common obstacles to performance-based initiatives. PFP system is considered less acceptable. This is owing to the fact that it is largely restricted to one-dimensional monetary information. It has a retrospective orientation, short-term vision and a fragile strategic content (Bourne et al., 2003; Kanji, 2005).

In addition, Park and Sturman (2012) posited that the effect of PFP strategies on employee future performance can be described by the nature of the relationship between pay and performance for each strategy and the financial nature of the awards from each strategy. Merit pay and bonus are components of PFP system and they have attracted the attention of researchers. Nyberg et al. (2013) observed that merit pay, bonus and their cumulative effective over time positively influence the employee future performance. However, bonus is more effective than merit pay. Another study stated that it is the employees' perception of the financial incentives that will determine its effectiveness. If the employees find the incentive program supportive, it is likely to motivate them and thus increase performance (Andersen and Pallesen, 2008).

The problem with the implementation of merit pay has to do with performance appraisal issue. This is reflected in three aspects. The first one is setting performance goals or benchmarks while the second is performance evaluation itself and the last one is how to create a connection between pay and performance (Kessler and Purcell, 1992). Boachie-Mensah and Dogbe (2011) stressed that the motivational influence of merit pay on performance is hindered by unfair performance appraisal. Six problems affect the relationship between merit pay and performance: evaluation problem; feedback and acceptance of evaluation result; limited desirability of merit reward; system uproar; long delay between performance and reward; and inconsistent use of financial and non-financial rewards (Campbell and Campbell, 1998). The review of literature on the performance pay-performance nexus demonstrated that there is still need for more empirical insights.

Owing to the above argument, it is proposed that:

H1: There is a significant relationship between PFP and employee performance.

2.2.2 Employee benefits and employee performance

Given the growing nature of employees' needs and expectations, the fact that employee benefits help to recruit, retain, and motivate qualified employees, and the significance of employee benefits, it is suggested for firms' management to look for a way of creating and managing an outstanding and inexpensive employee benefits program in their respective firms. According to Nzuve (2010), employee benefits can improve employee commitment and productivity which is the expectation of employee in exchange for the benefits they render to the employer. For example, a good pension package can induce, stimulate and retain high performers among the workforce. The reason is that pension forms an integral component of a competitive total reward system. In addition, employee benefit enhances employee wellbeing at work and at home.

Employee benefits can enhance employee commitment and productivity which is the anticipation of employers in exchange for the benefits they give to the employees. Omaro (2011) argued that there is positive correlation between organisational benefits and employee performance. However, researchers observed, based on the literature review, that there is no sufficient evidence found to have indicated a significant relationship between organisational benefit and employee performance. It should therefore be noted here that little is known about the link between employee benefits and employee performance.

Hence, the following hypothesis was proposed:

H2: There is a significant relationship between employee benefits and employee performance.

2.2.3 Distributive fairness as a mediator

According to equity theory, an employee's contribution to the organisation is achieved through his education, his working experience, effort, time and commitment, and the employee would, in turn, expect fair rewards in the form of pay, incentives, benefits, job security and recognition perks. Also, any mismatch between employee's contribution and his reward would bring up dissatisfaction, and this may consequently affect performance, but if there is match between contribution and the reward, there would be satisfaction, and enhanced performance (Adams, 1963, 1965; Cole and Flint, 2004).

Several studies, for example, Carr et al. (2010), Van Dierendonck and Jacobs (2012) and Whitman et al. (2012), have found a relationship between distributive fairness and work outcomes including organisational citizenship behaviour, organisational commitment, turnover intentions and job performance. In the research undertaken by Abekah-Nkrumah and Atinga (2013), it was found that fairness and conducive work environment are necessary for enhanced productivity.

Remarkably, studies have established both moderating and mediating effect of distributive fairness in the HRM practices–performance nexus (e.g., Ismail, 2014; Ismail et al., 2015a, 2008; Janssen, 2000, 2004). Janssen (2000, 2004) examined the moderating effects of distributive and procedural fairness in the context of innovative work behaviours. Janssen (2000) showed that employees behaved more innovatively as a

response to higher job demand when they perceived that a reward–effort ratio was fair. In 2004, he found that IWB could produce stress when distributive and procedural fairness were low. He further explained that procedural fairness could buffer the stress caused by innovative employees. In Shih and Susanto's (2011) research, it was found that perceived distributive fairness negatively moderated the link between innovative work behaviour and both conflict with co-workers and turnover intention. High perceived distributive fairness lessens conflict between innovative employees and other co-workers. High perceived distributive fairness also helps organisations prevent innovative employees from considering leaving the organisation in the near future. From the review of literature, it is discernible that distributive fairness has played both the mediating role and moderating role in various nexuses.

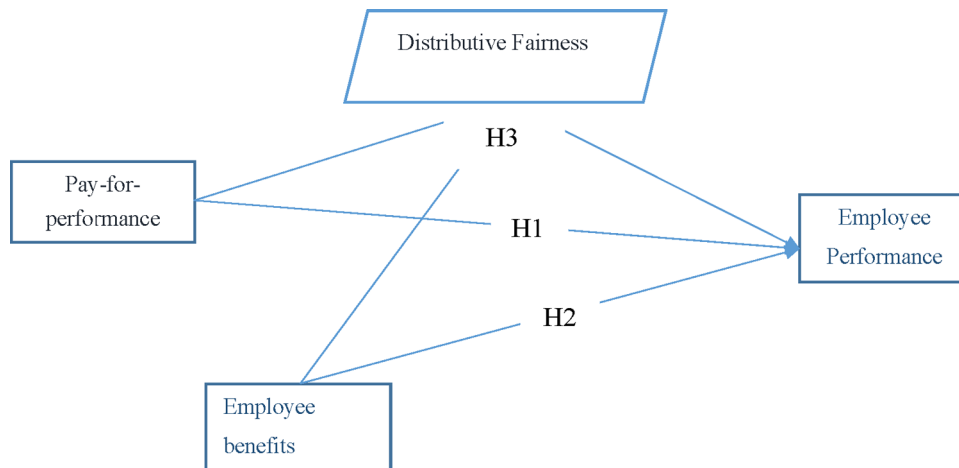
In Ismail et al.'s (2015a) study, it was indicated that there is a relationship between career incentives and employee performance with the partial mediation of distributive fairness. The study by Ismail et al. (2008) emphasised the mediating role of distributive fairness in the relationship between pay design and job satisfaction. Furthermore, a careful look at the research on the compensation–performance nexus divulges that the relationship is indirectly affected by perceptions of distributive fairness. Thus, investigating distributive fairness is a useful and appropriate contextual variable for this study since distributive fairness is an organisational context that can positively or negatively influence that behaviour (Janssen, 2000; Moorman, 1991). The concern of this study is to investigate the mediating effect of distributive fairness in the context of compensation–performance nexus, as depicted in Figure 1.

Going by the above review of the literature, and as illustrated in Figure 1, this paper hypothesised thus:

H3: Distributive fairness mediates the nexus between PFP and employee performance.

H4: Distributive fairness mediates the nexus between employee benefits and employee performance.

Figure 1 Research framework (see online version for colours)



2.3 Underpinning theory

In this study, equity theory is the main theory that grounds the nexuses of variables in the research model of this study. Equity theory of motivation, which was advocated by Adam Stacy, postulates that the employee expects fairness and equity in his reward based on the job performed by him. Although equity theory was derived from Hertzberg's job satisfaction theory, it is very much related to the reward system. The employer tends to be pleased if he perceives that the reward system is perceived by the workers to be fair and unbiased. Equity theory is based on the subjective and skewed judgement about fairness and equity in the reward system in relation to the inputs made by the workers. Employee's efforts, time, education, and experience constitute what is known as employee's inputs. Also, in equity theory, it is premised that people's perception and feeling regarding how they are being treated compared to others determines whether they will be happy or not (Armstrong, 2001). If an employee perceives that what he is being paid matches with his inputs in the organisation, then, he will be more meticulous and diligent at work. In the same vein, Boddy (2008) illustrated the analogy in the following formula:

$$\text{Input (A)} = \text{Input (B)}$$

$$\text{Reward (A)} = \text{Reward (B)}$$

The formula informs that if one employee makes a comparison of his earning vis-a-vis his efforts with another employee, and observes fairness and equity in it, he would definitely be satisfied. However, if he perceives otherwise, then the reverse is the case; he would be demotivated and discouraged. The consequence of this is that there would be tension and frustration on the part of the demotivated employee. Then, the performance of such employee will be low and consequently reduce the rewards more (Boddy, 2008).

In addition, this study is also underpinned by expectancy theory, because it is premised on the fact that an employee's motivation is predicated on the extent to which he wants something and the level of likelihood of getting it (Boddy, 2008). Individual employee's perception serves as motivational force for him.

As posited by Vroom (1964), it is observed that the combination of motivation and effort gives rise to performance and then to outcome. Motivated behaviour of an employee is energised by effort to performance, expectancy which must be greater than zero, and performance to outcome. Summation of the valences for all appropriate outcomes must be greater than zero. Availability of different kinds of rewards in the organisation stimulates more effort from the employee (Boddy, 2008; Croce, 2004).

3 Methodology

Cross-sectional survey method is the approach of this study. Research design in this study implies a procedure through which data is collected and analysed in order to test the proposed hypotheses. The survey instruments were of two parts: demographic

information of the respondents and the variables' instruments prepared to elicit information. The respondents were given 1–5 options for each response using five point Likert scale: strongly disagree (SD), disagree (D), neutral (N), agree (A) and strongly agree (SA). The Cronbach's alpha values of the variables of the study fall between 0.75 and 0.88, which is quite acceptable for social science studies.

The population of the study comprises Nigerian employees who are currently on study leave for the pursuit of higher education in Univerisiti Utara Malaysia (UUM). The total population is 278 based on the list provided by the Nigerian Students Community of UUM. The selection of this population was underpinned by the fact that the respondents hailed from different parts of Nigeria. Simple random sampling technique was used to sample the population. The adoption of this technique is based on the premise that the technique is the most efficient among all the probability designs as every element of the population has the equal chance of being selected and thus would enhance the objectivity of the study's findings (Yates et al., 2008).

Moreover, the sample size of this study was determined by the proposition of Hair et al. (2010), which signifies that ideal sample size would be in the range of 100–400 for the research that adopts structural equation modelling (SEM) as analysis technique, and Roscoe's (1975) rule of thumb which signified that a sample bigger than 30 and less than 500 is suitable. Thus, a sample size is 140 indicates that a set of 140 questionnaires were dispatched in person to the selected respondents, however 120 questionnaires were retrieved back. Unfortunately, four questionnaires were not filled up properly, thus removed from the final analysis. Therefore, 116 responses, representing 83%, were used for the final analysis.

Moreover, the latent construct measurement model is of two types: reflective and formative. Nevertheless, the latent constructs of this study were reflectively measured. This indicates that the relationship between measures and constructs flows directly from the construct to the measures. In a reflectively measured construct, indicators or measures are influenced by latent variables, and the reflective measurement model validates the indicators and their latent constructs (Freeze and Raschke, 2007). Measuring a construct reflectively is the most common approach (Simonetto, 2012), especially in the psychological and management sciences field of study, but latent construct formative measurement model dominates economics and sociology (Coltman et al., 2008).

Researchers have made distinctions between reflective and formative measurement. A reflectively measured latent construct exists independently of the indicators used, but a formatively measured latent construct is determined as an integration of its indicators (Borsboom et al., 2003). Likewise, in reflective constructs, adding or dropping an indicator does not change the conceptual domain of the construct, but in the formative constructs, adding or dropping an indicator can change the conceptual domain of the construct (Rossiter, 2002; Jarvis et al., 2003). Thus, the reflective measurement model is adopted in this research, given the fact that it dominates the management sciences research domain, and it would enable accomplishment of this research's objectives.

The data collected were analysed using SPSS version 21 and smart partial least squares (PLS) 2.0.M3 software packages, and a two-step approach as suggested by Chin (1998) was adopted to obtain valid and reliable results. On the basis of Hair et al.'s (2011) proposition, the two-stage approach which includes measurement model and structural model was undertaken before testing for mediation. The first stage entails

the validity and reliability of the measurement model. The second stage involves the structural model which entails R^2 values for the latent variables in the model (Chin, 1998); sign, magnitude and significance of path coefficients (Henseler et al., 2009); effect size (f^2) of predictor variables (Cohen, 1988); and predictive relevance of the model (Q^2) using blindfolding (a sample reuse estimation technique that excludes every d th data point to predict the excluded portions of the data) to obtain cross-validated redundancy measures, as described by Stone (1974) and Geisser (1974).

4 Research findings

4.1 Demographic and descriptive analysis

The descriptive analysis revealed that the senior employees among the respondents were 73.3% while 26.7% were junior employees. This tells that over one-third of the respondents were relatively experienced employees in their various places of work. Also, it indicated that 85.3% of the respondents (majority) were permanent staff while 14.7% were temporary staff. In addition, 32.8% of the respondents were new employees and they were at the early stage of the employment with work experience less than a year. However, more than half of the respondents, i.e., 52.6% respondents have working experience between 2 and 5 years in the Nigerian working environment. In terms of educational level, 9.5% have diploma, 30.2% have first degree in various fields of study while 60.3% have postgraduate degrees. This points out that the majority of the respondents were highly educated. Most of the respondents, i.e., 62.1%, were married, and others were either single or divorced/separated or widows. In sum, the respondents of this study were highly educated with longer work experience in the Nigerian context, this signifies that the respondents were quite appropriate because the majority were familiar with reward system processes in their respective workplaces.

In addition, the mean values for the variables ranged between 3.10 and 4.15, indicating that the amount of PFP, employee benefits, as well as the levels of distributive fairness and employee performance, ranged from moderately high (3.00) to highest (7.00). It also showed that employee performance has the highest mean score which is 4.13 with the standard deviation of 0.58. Distributive fairness, the mediator, has the mean score of 3.44 with the standard deviation of 0.99 while the mean score of PFP is 3.19 with the standard deviation of 0.79. Employee benefits have the lowest mean score of 3.11 while the standard deviation is 0.78. The scale used in measuring the questionnaire items was 1–5 Likert scale: strongly disagree, disagree, neutral, agree and strongly agree.

4.2 Measurement model

To confirm the internal consistency reliability, convergent validity and reliability, and discriminant validity, measurement model analysis was conducted. This is depicted in the figure and tables below.

Table 1 Internal consistency and convergent validity

<i>Constructs</i>	<i>Indicators</i>	<i>Loadings</i>				<i>Cronbach's alpha</i>	<i>AVE</i>	<i>Composite reliability</i>
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>			
Distributive fairness	DF1	0.526				0.768	0.603	0.854
	DF2	0.796						
	DF3	0.818						
	DF4	0.912						
Employee performance	EmPerf1	0.900				0.504	0.660	0.793
	EmPerf6		0.714					
Employee benefit	EmpBen1		0.696			0.840	0.512	0.880
	EmpBen2			0.835				
	EmpBen3			0.634				
	EmpBen4			0.731				
	EmpBen7			0.647				
	EmpBen8			0.708				
Pay-for-performance	PFP2				0.759	0.695	0.526	0.814
	PFP4				0.787			
	PFP5				0.760			
	PFP6				0.575			

From Tables 1 and 2, results of the measurement model analysis revealed significant ($p < 0.01$) loadings for all reflective indicators. However, five items from employee performance, two items from employee benefits, and two items from PFP fell below the threshold of 0.5 (Hair et al., 2010, 2011), and were removed from subsequent analysis. All remaining items showed satisfactory loadings ranging from 0.526 to 0.921, and composite reliability scores between 0.793 and 0.880 (Hair et al., 2010; Nunnally and Bernstein, 1994). The average variance extracted (AVE) values of the reflective scales ranged between 0.512 and 0.660, thereby exceeding minimum requirements of 0.5 (Hair et al., 2011). Discriminant validity was deemed satisfactory, as each latent construct's AVE emerged greater than its highest squared correlation with any other latent construct in the model, as shown in Table 2 (Hair et al., 2010).

Table 2 Discriminant validity

<i>Constructs</i>	<i>DF</i>	<i>EMPERF</i>	<i>OB</i>	<i>PFP</i>
DF	0.776			
EMPERF	0.531	0.812		
OB	0.516	0.399	0.716	
PFP	0.602	0.418	0.570	0.725

Diagonal (bold face) represents the square root of the average variance extracted while other entries represent the correlations.

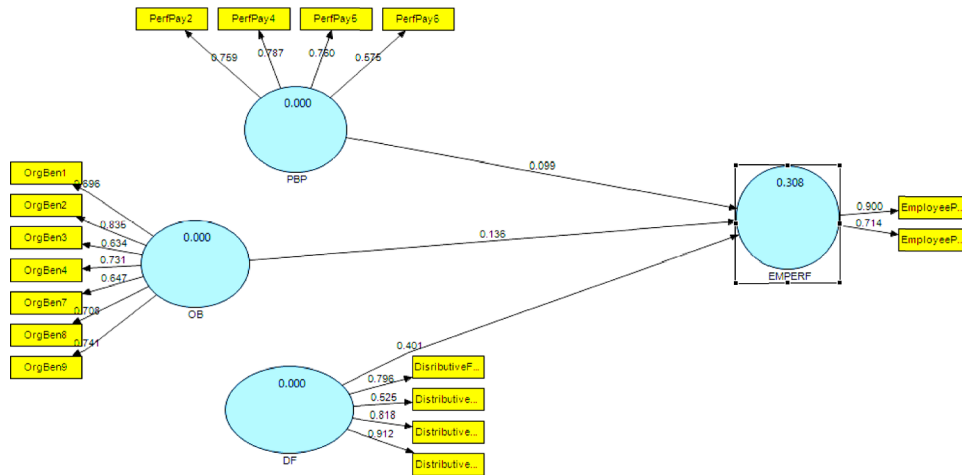
4.3 Structural model

Results of structural model are presented in Table 3 and Figure 3. The R^2 value was 0.308 (see Figure 2). In the model, Figure 2 indicates that exogenous latent variables explain 31% of the variance of the endogenous latent variable which is moderate (Cohen, 1988). Hypothesis 1 stated that *PFP has significant positive effect on employee performance* (PFP → EMPERF), the result in Table 3 and Figure 3 revealed that Hypothesis 1 is supported ($\beta = 0.283$; $t = 2.809$; $p < 0.001$). In the same vein, the Hypothesis 2 stated that *employee benefit has significant positive effect on employee performance* (EB → EMPERF). The result shown in Table 3 and Figure 3 indicates supports for the Hypothesis 2 ($\beta = 0.237$, $t = 2.141$, $p < 0.001$).

Table 3 Hypotheses testing

Hypotheses	Beta	Standard error	T statistics	P-value	Decision
EB → EMPERF	0.237	0.111	2.141	0.983	Supported
PFP → EMPERF	0.283	0.101	2.809	0.997	Supported
EB → DF × DF → EMPERF	0.109	0.048	2.274	0.988	Supported
PFP → DF × DF → EMPERF	0.196	0.063	3.127	0.578	Supported

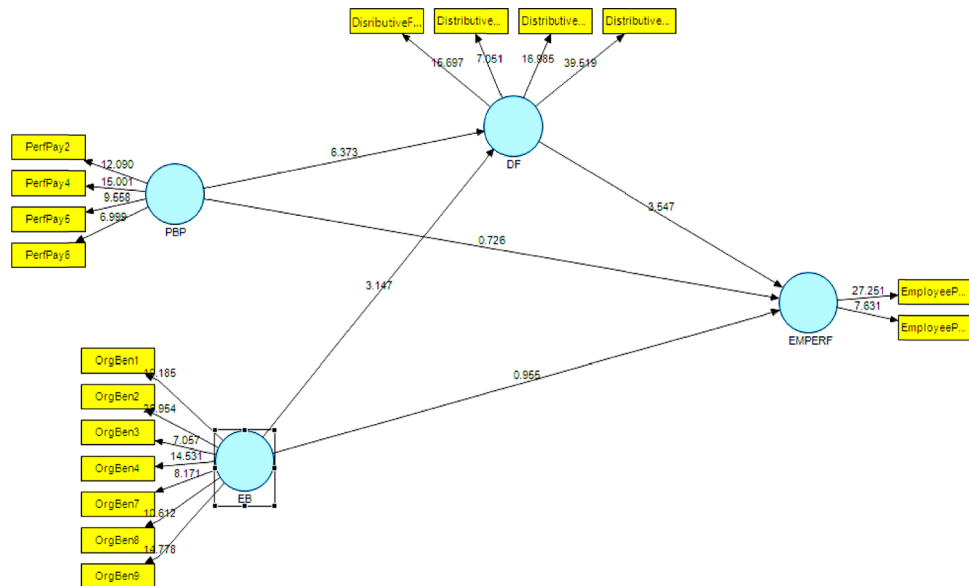
Figure 2 Measurement model (see online version for colours)



In testing the Hypotheses 3 and 4, which stated that distributive fairness mediates the nexus among the exogenous latent variables (i.e., PFP and employee benefits), and endogenous latent variable (employee performance), Preacher and Hayes’s (2004, 2008) mediation analysis procedure was adopted. This procedure involves three stages: assessment of significance of the direct effect without inclusion of the mediator variable in the PLS path model, if significant then the next stage follows. The next stage involved inclusion of the mediator variable in the PLS path model and assessment of significance of the indirect effect, if significant then the third stage will be proceeded to. The third stage is the assessment of the variance accounted for (VAF), if the value of VAF is less than 20% then no mediation, if it is between 20% and 80%, there is partial mediation, and

if it is more than 80% hence the full mediation. The direct effect between PFP and employee performance (PFP → EMPERF) is significant ($\beta = 0.237$, $t = 2.1409$, $p < 0.001$). Likewise, the direct effect between employee benefits and employee performance (EB → EMPERF) is significant ($\beta = 0.283$, $t = 2.809$, $p < 0.001$). In addition, the indirect effects regarding PFP, distributive fairness and employee performance nexus (PFP → DF × DF → EMPERF), and employee benefits, distributive fairness and employee performance (EB → DF × DF → EMPERF) are significant with the β value of 0.196 and t value 3.127, and β value of 0.196 and t value of 3.127, respectively. The result of VAF, which was calculated by dividing the indirect effect by the total effect, indicates a partial mediating role of distributive fairness in the nexus between PFP and employee performance with the VAF value of 0.315. Likewise, VAF value of 0.410 indicates that distributive fairness partially mediates the nexus between employee benefits and employee performance. Hence, Hypotheses 3 and 4 are supported.

Figure 3 Structural model (see online version for colours)



On the basis of Cohen (1988) and Hair et al. (2013), Table 4 indicates that the endogenous variable (employee performance) was explained by exogenous variables bordering on distributive fairness, organisational benefits, and PFP with effect size (f^2) of 0.139, 0.014, and 0.004 respectively, and thus indicating the exogenous variables' minimal effect size on employee performance. Moreover, predictive relevance (Q^2) of this research model was estimated using the blindfolding technique (Fararah and Al-Swidi, 2013; Chin, 1998). The cross-validation redundancy (CVR) value, which is 0.206, established adequate predictive relevance of the model based on Fornell and Cha's (1994) criteria, which dictated that CVR values must be larger than zero before predictive relevance of a research model can be established.

Table 4 Effect size on the endogenous variable (employee performance)

<i>Exogenous constructs</i>	<i>F²</i>	<i>Effect size</i>
DF	0.139	Small
OB	0.014	Small
PBP	0.004	Small

5 Discussion

The findings of this study go in the expected direction as all four hypotheses were supported. The first finding indicates that PFP influences the performance of workers positively. This finding is consistent with the studies of Boachie-Mensah and Dogbe (2011), Ismail et al. (2015b), Nyberg et al. (2013) and Park and Sturman (2012).

The logical appeal of PFP as a tool in support of a meritocratic philosophy of remuneration is palpable (Armstrong, 2005). This informs that individual employee roles are indispensable and should be reflected in the pay given to individual employee. This also indicated a positive role of PFP in improving employee performance.

More so, it is evident from certain studies that performance-related pay does not really predict employee performance. Some studies have argued that implementation of PFP system ultimately creates the major obstacle to its success. It is not that employees do not like the system (Egger-Peitler et al., 2007). Perry et al. (2009) added that poor implementation and poor management practices are the common obstacles to performance-based initiatives. PFP system is considered less acceptable. This is owing to the fact that it is largely restricted to one-dimensional monetary information. It lacked a strategic focus, and it had a retrospective orientation, short-term vision and a fragile strategic content (Bourne et al., 2003; Kanji, 2005). However, the finding of this study solidifies the finding of the extant research that observed that performance-based pay is a catalyst to improved employee performance.

Furthermore, the result of this study has also indicated a positive significant relationship between employee benefits and employee performance. This result is in line with the findings of Nzube (2010) and Omaro (2011). Likewise, Ismail et al.'s (2015b) finding corroborates the fact that employee benefits boost the morale of the workers and, in turn, enhance their performance. This points to the fact that an employee can be inspired and consequently develop his performance if the organisation provides some benefits such as home allowance, educational allowance, transport allowance, etc. This also reveals the fact that the majority of the respondents were sponsored to further their educational career by their organisations. Hence, employee benefits combined with basic pay should constitute a competitive total remuneration package, with a target to improve and enhance employee performance.

The result of the structural model analysis divulges that distributive fairness partially mediates the relationship between PFP and employee performance, and between employee benefits and employee performance. This demonstrates that employees would feel satisfied and motivated if they perceive justice in the distribution of PFP and employee benefits in their organisation compared to other organisations. Thus, all the three research questions were answered. Also, all the hypotheses were supported.

Generally, the findings of this study are consistent with two compensation theories namely equity theory and expectancy theory. Adams (1965) posited that an employee will be energised if he receives a fair reward for the work he does compared to other colleagues. This is also consistent with equity theory, better performance is achieved when an employee feels his inputs and the corresponding rewards are equal to that of his colleagues (Ali and Mohsen, 2008).

Equity theory posits that justice and equity should be entrenched in the reward system in order to acknowledge the inputs of the workers. The inputs consist of an employee's efforts, time, education, and experience. An employee who perceives fair treatment compared to his colleagues would feel motivated but if he perceives otherwise, he would feel demotivated. Similarly, an employee who perceives commensuration between his inputs to the organisation and the pay he receives from the organisation would do more. The implication is that employees can be encouraged to put more effort by providing a competitive reward system which includes good pay, good incentives and benefits. Employees would prefer an organisation that offers a better reward system than other organisations.

6 Conclusion, implications and future research directions

Empirical studies have emphasised the significance of improving employee performance. The scope of this research is limited as it did not cover a large sample. Hence, the generalisability of the finding is limited. There are few studies that have linked employee benefits to employee performance while, to the best of our knowledge, this is the first research to examine the influence of PFP and employee benefits on employee performance with the mediation of distributive fairness. Hence, this study is unique on its own.

Going by the findings of this study, organisations are exhorted to put in place PFP program and employee benefits plan, so that employees would be motivated and thus enhance their productivity, and positive attitudinal and behavioural outcomes will be accomplished as this will encourage employees to support the organisational and human resource department strategies and goals in the organisation. Consequent upon higher employee productivity and performance, there would be higher organisational performance which is the sole objective of every organisation.

The overall findings of this study can serve as a compendium for the management in entrenching an effective competitive reward system in the organisation. To solidify the body of knowledge in this research area, future research can replicate this research in a larger context. Also, the failure or success of HR systems depends on internal and external boundary conditions (Chadwick et al., 2013). Also, the context within which a firm operates and the situation in which a firm finds itself determine the kinds of strategies, policies, aims, etc. that will be adopted by such firm. Hence, future researchers can look for a moderator that moderates the PFP–employee performance nexus and the employee benefits–employee performance nexus.

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