

Article Review:

Taylor, J., & Beh, L. (2013). The impact of pay-for-performance schemes on the performance of Australian and Malaysian government employees. *Public Management Review*, 15(8), 1090-1115.

Article Review – Compensation

Introduction

This paper performs a review of an article by Taylor Jeannette and Loose Beh titled “The impact of pay-for-performance schemes on the performance of Australian and Malaysian government employees” published in the journal of *Public Management Review* in 2013. The focus of the review is on the literature review, research aims and objectives, discussion, and managerial implications.

Statement of the Problem

Taylor and Beh (2013) clearly articulated the statement of the problem, which focuses on whether pay-for-performance (PFP) schemes in the Asia Pacific have been linked to improvements in the performance of employees. The authors acknowledged that many government agencies in the Asia Pacific utilize PFP schemes. Although there is vast research on the issue, there have highlighted doubts regarding the effectiveness of PFP schemes in motivating the government employees to increase their performance. Whereas PFPs have been occasionally effective, these schemes have not facilitated the realization of short- and long-term organizational objectives. The authors also strengthened their statement of the problem by providing background information that motivated the research. For example, Taylor and Beh (2013) noted that the majority of empirical studies on PFP schemes have been performed outside Asia and that PFPs have not resulted in consistent successful outcomes.

Moreover, sufficient background information concerning the setting of the research has been provided in the article. For example, the author acknowledge the influence of a country’s culture on the performance impacts of PFP schemes. Thus, Taylor and Beh (2013) provided sufficient background information to help understand the cultural profile of Malaysia and

Australia, which were the settings for the study. Australia is described as a country having high individualism, wherein emphasis is on competition and self-success; hence, it is likely that the differences in PFP results among individuals might be accepted. On the other hand, Malaysia is described as a country with high group-centered collectivism, wherein emphasis is on group harmony; thus, PFP schemes that set people apart in accordance to their individual performance might have a negative impact on morale and relationships. In sum, Taylor and Beh (2013) clearly articulated the statement of the research problem and supported this by providing sufficient background information concerning the setting of the research.

Literature Review

Taylor and Beh (2013) conducted an extensive review of the literature focusing on PFP schemes and employee performance, and the three factors expected to moderate the PFP-IRB relationship including national culture, organizational citizenship behavior, and employee empowerment. The literature review in the article is logically organized since it is presented in a way that can be easily followed and understood. In essence, the structure and the logical flow of the literature review offers a glimpse of the direction of the research. At the end of the review of the literature, the authors proposed expected relationships between the variables in the research.

The first theme covered in the literature review is on PFP schemes and their effects on employee performance. In Australia and Malaysia, performance management is a key aspect of the public service. Performance management schemes are used to link and align organizational, team, and individual results and objectives. In Australia, salary advancement in the majority of public service agencies is linked to performance management (Australian Public Service Commission [APSC], 2010; cited in Taylor and Beh, 2013). In Malaysia, the annual PFP scheme is used in public service agencies to determine salary progression.

In addition to providing an overview of the PFP schemes used in Malaysia and Australia, the literature review of the article also explored the impacts of the PFP schemes on the performance of employees. The authors rely on existing theories to deduce the expected relationship between the use of PFP schemes and the performance of employees. An example of a theory cited in the literature review by Taylor and Beh (2013, p. 1093) is the principal agent theory, which posits that monetary incentives can be used as an effective tool for addressing problems emanating from information asymmetry and conflicting interests between the principal and the agent. Taylor and Beh (2013) cite numerous principal-agent theory researchers. Another theory that Taylor and Beh (2013) used to explain the impact of PFP on performance is the procedural justice theory, which posits that the perceptions of employees regarding the fairness in the decision-making procedures have an influence on their work-related behaviors. The procedural justice theory suggests that the allocation procedures ought to be consistent over time as well as across individuals, lack personal bias, and have avenues for challenging decisions perceived to be unfair. Using these theories, the authors suggest that the PFP scheme can help enhance the performance of employees if they perceive them to have particular characteristics such as a linkage between performance and pay; differentiate the performance levels; and provide sufficient compensation to motivate performance. Thus, the authors hypothesize that positive PFP perceptions are positively associated with IRB levels. Although PFPs have strong theoretical support, empirical support for the same is scanty due to issues such as perceived inconsistent allocations of the ratings of performance by supervisors, lack of organizational support, and opposition by unions. The authors use these findings in the literature to suggest that the PFP-IRB relationship might be moderated by a number of factors.

The second theme covered in the review of the literature relates the factors that have a direct impact on IRB, which include national culture, organizational citizenship behavior, and employee empowerment. The empowerment of employees relates to the enhanced motivation of employees as a result of improvements in the contextual factors at work including the practices of the management and delegation of decision-making. Taylor and Beh (2013) reviewed the literature that focused on conceptualizing the concepts hypothesized to moderate the PFP-IRB relationship. For instance, the authors used the conceptualization of psychological empowerment developed by Spreitzer (1995), who define empowerment as the belief that work is personally significant, autonomy to work, and the belief that the work can influence the outcomes of the organization. Employees who are of the view their work has meaning and enjoy autonomy tend to have higher levels of performance. Organizational citizenship behavior is another factor that is likely to affect IRB, which Taylor and Beh (2013) defined using the conceptualization of William and Anderson (1991), who viewed organizational citizenship behavior of employees that contribute to the benefit of the organization. In the article, it is hypothesized that organizational citizenship behavior is positively related to IRB. The last factor reviewed by Taylor and Beh (2013) is the national culture, especially the dimensions of power distance and collectivism, which are likely to have an influence on whether employees might exhibit IRB. Collectivism cultures are characterized by people expressing cohesiveness, loyalty and pride in organizations; hence, people in such cultures emphasize cooperative and teamwork behaviors, which might positively affect IRB. Power distance denotes the degree to which people accept the unequal power distribution within the organization. In high power distance culture, individuals value decision-making and power that is centralized whereas low power distance cultures are

characterized by individuals valuing self-reliance and dislike unnecessary supervision, which are likely to have a positive impact on IRB.

Another theme covered in the review of the literature is the factors having an indirect influence on IRB. Taylor and Beh (2013) state that the aforesaid factors might indirectly increase IRB. For example, if employees have positive perceptions of empowerment that increases the levels of performance, then there is the likelihood that empowerment can make the positive PFP-IRB relationship strong; hence, empowerment might be a moderating factor that influences the PFB-IRB relationship. Other moderating factors that Taylor and Beh (2013) described in the literature include organizational citizenship behavior and national cultures.

Although the literature review in the article is comprehensive and logically organized; there are a number of weaknesses. First, the authors placed a lot of emphasize on theoretical literature when compared to empirical literature. There are relatively few mentions of empirical literature on the themes covered in the literature review. Secondly, the literature that the authors reviewed are not recent. There are numerous citations that are older than five years before the year of the study was published. This is understandable because of the emphasis on theoretical literature; however, including more recent empirical studies would have made the literature review stronger and help to provide more justification as to why the research is required.

Research Aims and Objectives

The objectives of the research are clearly stated. A key strength of article is the authors derived the purpose of their study from their statement of the problem. To this end, the research by Taylor and Beh (2013) had two objectives, which included examining whether the positive perceptions of employees concerning the PFP schemes of their agency is directly linked to higher performance levels in terms of their in-role behavior (IRB). The second objective of this research

was to assess whether the specific factors moderate the relationship between the perception of employees regarding the PFP of their agency and their performance.

It is evident that the objectives of this research are tied to the problem of the research. In addition, the purpose statement articulated by the authors specifies the independent and dependent variables as well as the population for the research. In this respect, the variables in the research are the perception of employees regarding the PFP schemes of their agencies (independent variable) and the performance measured using IRB (dependent variable). The population for the research comprised of the employees of government agencies in the Asia Pacific region, particularly the employees of the Malaysian and Australian federal governments. Overall, it is evident that what Taylor and Beh (2013) intended to investigate is clearly identified. Also, what they expected to find is clearly stated. With regard to the first study objective to explore the relationship between PFP-performance relationship, Taylor and Beh (2013) state that employees who are actively engaged in the prescribed and formal activities that are key to their job tend to have high IRB levels; therefore, if PFP schemes are used for monitoring and rewarding the set work role expectations, the perceptions of employee regarding PFP schemes directly affects their IRB levels. Regarding second study objective that focuses on factors moderating the PFP-IRB relationship, the authors expected that employee empowerment practices, organizational citizenship behavior, and culture of the country (power distance and collectivism). Based on the review of the literature, the authors developed a number of hypotheses listed below:

H1: A positive relationship exists between the positive perceptions of employees regarding PFP schemes and their levels of IRB.

H2: A positive relationship exists between the psychological empowerment of employees at work and their levels of IRB.

H3: A positive relationship exists between the levels of organizational citizenship behavior of employees and their levels of IRB.

H4: A positive relationship exists between low power distance and high collectivism cultural values and the employees' level of IRB; therefore, employees ascribing the cultural values of low power distance and high collectivism have a higher likelihood of engaging in IRB.

H5: The psychological empowerment of employees moderates the effect of PFP on IRB. The higher the levels of PE among employers, the stronger the positive PFP-IRB relationship.

H6: The organizational citizenship behavior of employees moderates the effect of PFP on IRB. The higher the levels of organizational citizenship behavior among employees, the stronger the positive PFP-IRB relationship.

H7: The cultural values of low power distance and high collectivism moderates the effect of PFB on IRB. The more the employees embrace the cultural dimensions of low power distance and high collectivism, the stronger the positive PFP-IRB relationship.

Discussion

A number of the hypothesized direct relationships between the variables were reported to be significant while others were not statistically significant. The findings indicated a significant positive relation between the IRB variable and other variables including the psychological empowerment of employees, organizational citizenship behavior, power distance, and collectivism. The results showed that participants who participated in activities that they believed were key to their work were those who helped others, perceived empowerment at work, and value collectivism as well as low power distance. On the other hand, a positive relationship

found between IRB and PFB was not significant statistically. In the same vein, the positive relationship found between organizational citizenship behavior and IRB was not statistically significant. In addition, the favorable perceptions of PFP by respondents did not seem to have a significant increase on their levels of performance. The relationship between organizational citizenship behavior and IRB was the largest. Taylor and Beh (2013) also documented significant differences between Malaysia and Australia for the majority of the variables. For instance, the Australian sample had significantly higher levels of IRB when compared to the Malaysian sample. In the Malaysian sample, the majority “agreed” that they experienced psychological empowerment whereas in the Australian sample, the majority “somewhat agreed” to experiencing psychological empowerment. Another difference between the countries is that the cultural orientation of power distance and collectivism was significantly higher for the Malaysian sample than that of the Australian sample. There were no significant differences between the countries in terms of PFB and organizational citizenship behavior.

The positive relationship between IRB and PFP was not significant; hence, the authors rejected Hypothesis 1. On the other hand, other variables including power distance, collectivism, organizational citizenship behavior, and psychological empowerment had a significant relationship with IRB. Thus, the author concluded that employees who were of the belief that they were empowered had a higher likelihood of engaging in activities they perceived to be core to their job; hence, Hypothesis 2 was supported. The participants who already had high levels of performance in discretionary activities aimed at benefiting organizational members had a higher likelihood of raising their levels of IRB; thus, Hypothesis 3 was supported. Participants who ascribed to high collectivism (valued cohesiveness and pride) and low power distance (believed in equal distribution of power between organizational and societal members) had a higher

likelihood of increasing their levels of IRB; hence, Hypothesis 4 was supported. The moderating effects of psychological empowerment, organizational citizenship behavior, and power distance and collectivism were examined. The results of the study did not show a significant moderating effect of these variables on the PFP-IRB relationship; as a result Hypothesis 5, Hypothesis 6, and Hypothesis 7 were not supported.

In discussing their findings, Taylor and Beh (2013) acknowledged a number of limitations associated with their research. The first limitation is the small size of the sample, especially for Australia. Although they adopted efforts to make sure that sample was representative, the small size of the sample poses concerns regarding the generalizability of the findings to the larger public service in Australia and Malaysia. The second limitation mentioned by Taylor and Beh (2013) stems from the use of the cross-sectional design, which cannot be used to deduce precise causal conclusions. The authors acknowledge the possibility of the causal relationships reported in their study being bi-directional or reversed. Another limitation is the incorporation is small items when defining the constructs of power distance and collectivism. Despite these limitations, the findings by Taylor and Beh (2013) are consistent with those reported on previous research focusing on the Asia Pacific context, especially the insignificant positive impacts of PFP on the performance of employees in the public sector. In this respect, the findings of the research established that the manner in which public service employees in Malaysia and Australia perceived the PFP schemes did not have an effect on their levels of IRB. Instead, their perceptions regarding psychological empowerment affected their levels of IRB. Moreover, positive perceptions of the PFP did not have a direct impact with respect to increasing the performance (IRB) or the organizational citizenship behavior. The authors concluded that if a PFP had the aforesaid features (sufficient monetary rewards, differentiating performance levels,

and aligning pay to performance) but did not result in an increase in performance, then PFB is an ineffective strategy for enhancing the performance of employees. On the contrary, employee empowerment strategies were reported to have a significant positive impact on the performance of employees as evident by the significant positive association between IRB and psychological empowerment. The authors also presented suggestions for further research, which included examining the close relationship between organizational citizenship behavior and IRB, especially how they affect each other. Another area of future research mentioned by Taylor and Beh (2013) involves comparing the effectiveness of psychological empowerment of employees on enhancing IRB to have a better understanding of it can be leveraged to increase the performance of government employees in the Asia Pacific region.

Paper Managerial Implications

The managerial implications of this research are presented in the article. The first implication is that the findings cast some doubts concerning the effectiveness of the PFP in enhancing the performance of employees in the Malaysian and Australian public sector. If the main aim of the public of the agencies for adopting PFP is to increase performance of employees; then the findings of the research show that using this strategy might not be effective. The second implication of the findings is that there are other cost effective ways of raising the performance of employees. One of these strategies entails empowering employees psychologically among other human resources strategies that can be employed to enhance employee performance. The goal setting theory posits that clearly specified, accepted and challenging goals can enhance the performance of employees. In this respect, emphasis should be on enhancing task significance in order to improve employee performance through altering the perceived association between their job roles and their impact of their jobs on others.

Through showing how employee's jobs contribute to other's wellbeing, employees can see their jobs as being valuable and purposeful; hence, increasing performance.

UAE is characterized by a high power distance and low individualism (high collectivism). The study showed that power distance and collectivism have a significant relationship with IRB. Specifically, the results suggest that high collectivism and low power distance are characterized by high IRB levels, which fits the cultural profile of UAE. This cultural profile can be leveraged by UAE organizations to increase organizational citizenship behavior, which in turn has a positive effect on employee performance. Therefore, in UAE, IRB is likely to be influenced by high collectivism and low power distance.

Conclusions

The article by Taylor and Beh (2013) is well written and has a clearly articulated statement of problem that is supported by adequate background information. The literature review is comprehensive and organized logically; hence, sets the direction for the research. The weakness of the literature is that the authors rely significantly on theoretical literature with scanty empirical literature. The objectives of the research are also stated clearly, which include included examining whether the positive perceptions of employees concerning the PFP schemes of their agency is directly linked to higher performance levels in terms of their in-role behavior and to assess whether the specific factors moderate the relationship between the perception of employees regarding the PFP of their agency and their performance. The findings of the research showed that the perceptions that employees have of their PFP scheme does not have an effect on their performance measured using IRB; however, the psychological empowerment of employees is an effective tool for enhancing the performance of employees.