

# Perceptions of Justice in Extrinsic Reward Patterns

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## Abstract

Effective extrinsic rewards foster a positive culture within organizations. The current study reviewed algorithmic/experiential reward patterns and perceptions of justice in four businesses to gain insight into the perceptions of employees with regard to justice. Results indicate that perceptions of justice vary according to patterns in extrinsic rewards. This study also discovered that employees perceive fairness according to characteristics specific to the organization and industry. Managers must understand how employees perceive justice to determine the most effective means with which to implement extrinsic rewards, according to two distinct patterns. Suggestions for practical implementation and future research are also provided.

## Keywords

perceptions of justice, extrinsic rewards, direct/indirect rewards, reward patterns, algorithmic/experiential pattern

Studies have concluded that an effective system of rewards is directly beneficial to the perceptions of individuals and indirectly beneficial to the performance of an organization.<sup>1</sup> A successful rewards package fosters perceptions of dignity, trust, respect and a positive culture within the organization.<sup>2</sup> Extrinsic rewards are core elements in the interaction between organizations and employees with regard to skills and responsibilities<sup>3</sup>; that is, employees offer their skills and capabilities in exchange for extrinsic rewards to satisfy their needs.

In a relationship of exchange, perceptions of justice in the workplace are a significant moderator.<sup>4</sup> Previous research by Scarpello and Jones,<sup>5</sup> Mahoney,<sup>6</sup> Chen et al.,<sup>7</sup> Heneman,<sup>8</sup> Bloom<sup>9</sup> and Choi and Chen<sup>10</sup> determined the importance and identified the factors influencing perceptions of justice with regard to extrinsic rewards. Tremblay et al.<sup>11</sup> and Williams et al.<sup>12</sup> even identified a positive relationship between perceptions of justice and satisfaction with extrinsic rewards (pay and benefit satisfaction). Although most researchers have argued that perceptions of justice are important for extrinsic rewards, few studies have discussed how managers should consider perceptions of justice when making decisions concerning rewards. The current study explores employee perceptions of justice and discusses what managers can do to match the expectations of employees with regard to two distinct patterns associated with extrinsic rewards.

The perception of justice held by employees heavily influences the effectiveness of rewards packages. Knowledge of patterns associated with extrinsic rewards

can help managers to create a climate of fairness and improve the effectiveness of granting rewards. Following a review of the literature related to reward patterns, we then investigate this issue in four separate businesses. Finally, we provide suggestions and implications for practitioners and future research.

## Extrinsic Rewards and Reward Patterns

Extrinsic rewards have to fit the business strategy of an organization.<sup>13</sup> Appropriate extrinsic rewards can motivate employees, enhance innovativeness, influence the effectiveness of managing human resources and improve perceptions related to the performance of the organization.<sup>14</sup>

According to Ramlall<sup>15</sup> and Namasivayam et al.,<sup>16</sup> extrinsic rewards are monetary and have two main elements: direct (salary) and indirect (benefits) rewards. An organization satisfies employees through direct and indirect rewards in exchange for their skills and knowledge.<sup>17</sup> Direct rewards comprise salary according to seniority or performance, including basic pay and incentive pay. Indirect rewards are benefits including services or goods, such as health insurance, unemployment insurance, pension and regular deferred retirement plans.<sup>18</sup> Moreover,

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employees can distinguish between satisfaction with pay and satisfaction with benefits.<sup>19</sup>

Considering the strategic orientation of components of extrinsic rewards, Gomez-Mejia<sup>20</sup> and Gomez-Mejia and Balkin<sup>21</sup> identified two patterns for strategic rewards to provide a better fit between business strategies and reward policies: “Algorithmic” and “Experiential.”<sup>22</sup>

### *Algorithmic Reward Patterns*

An algorithmic pattern emphasizes the use of mechanistic, predetermined, standardized and repetitive processes; mitigating circumstances, internal contingency factors and exceptions to the rule are minimum considerations.<sup>23</sup> Traditional evaluation of jobs, seniority and authority are criteria in algorithmic patterns: job evaluations require that job value scores match pay grade structures and provide a prediction of basic wages.<sup>24</sup> However, evaluations of jobs do not necessarily fit all positions within an organization; internal equity and hierarchical position count in algorithmic patterns.<sup>25</sup>

Algorithmic patterns rely heavily on traditional evaluations of jobs, base salary and benefits, with minimal variable rewards and an emphasis on internal equity and hierarchical position as the basis of rewards. Algorithmic patterns monitor behavior rather than outcomes, orientated to short-term performance, above market pay with strong job security, secrecy in pay and low employee participation.<sup>26</sup> Algorithmic patterns match the characteristics of defensive strategy and a mechanistic organization. They are hierarchical with specialized tasks and low levels of job discretion, vertical communication channels, job-based grading structures, pay rates above the market average and increments based on length of service.<sup>27</sup>

Perceptions of justice in algorithmic patterns influence employee satisfaction. When organizations reward employees according to algorithmic patterns, perceptions of justice are positively related to benefits and job satisfaction and indirectly related to satisfaction with pay, commitment to the organization and turnover.<sup>28</sup>

### *Experiential Reward Patterns*

Experiential patterns refer to the use of personal competencies and attributes as the basis with which to determine pay, the allocation of pay for performance, sensitivity to the market and the extent of risk sharing between employees and the organization.<sup>29</sup> Experiential patterns are more flexible and adaptive than algorithmic patterns and therefore are better able to respond to varying circumstances.<sup>30</sup> Experiential patterns decentralize administrative systems, allow substantial latitude for unique cases and place less emphasis on hierarchical position as a factor in decisions

related to compensation.<sup>31</sup> Variable pay is an important part of experiential patterns, which are based on individual contributions rather than the worth of the job.<sup>32</sup>

Incentive pay such as individual payments, merit pay and bonus, profit sharing, gain sharing, stock options, ownership and pay for performance are typical rewards in an experiential pattern.<sup>33</sup> Experiential patterns match the characteristics of prospective strategies and organic business introduced by Miles and Snow<sup>34</sup>, including a lateral communications network, a high degree of job discretion and a view of potential personal contribution to the success of an organization.<sup>35</sup> Perceptions of justice with regard to experiential rewards influence satisfaction with the rewards, managerial commitment and even acceptance of pay by employees.<sup>36</sup>

As with organizational politics, work climate and pay-setting procedures can predict perceptions of justice related to pay in experiential reward patterns.<sup>37</sup> In addition, understanding the pay plan, belief in the effectiveness of the pay plan and commitment of the organization are related to perceptions of justice.<sup>38</sup> Specifically, training with understanding and communication related to experiential reward patterns is positively related to perceptions of justice.<sup>39</sup>

Algorithmic and experiential patterns describe two extreme poles for managers developing an extrinsic reward package. Most organizations fall somewhere in the continuum with a combination of rewards.<sup>40</sup> Algorithmic patterns base compensation on quantitative measures, whereas experiential patterns also consider the qualitative aspects of performance.<sup>41</sup> A manager must weigh each reward pattern to compensate employees appropriately.

## **Perceptions of Justice**

Justice refers to a fair experience with regard to results, decision processes, social relationships and information.<sup>42</sup> Perceptions of justice are related to the effectiveness of extrinsic rewards in satisfying employees<sup>43</sup> and incentives and motivation<sup>44</sup>. Perceptions of justice have a favorable influence on employees with regard to extrinsic rewards. This study adopted the four-factor justice model to examine employee perceptions of justice with regard to extrinsic reward patterns.

### *Distributive Justice*

Distributive justice refers to the perception of fairness in outcomes,<sup>45</sup> including benefits and rewards,<sup>46</sup> pay selection and decisions related to promotion,<sup>47</sup> as well as other aspects influencing the welfare of individuals in an organization.<sup>48</sup> Individuals compare their input–output ratio with others within and outside the organization and

develop a distributive perception of justice, that is, employees adopt the input–output ratio of internal/external equity to form distributive perceptions of justice.<sup>49</sup> The input of employees is their labor and their output is the rewards from the organizations.

Internal equity is the belief that employees are compared with their colleagues, while external equity is a comparison with the labor market. Once the ratio of input/output is unbalanced, employees will have a distributive perception of a lack of justice and change their behavior or that of others whom they can control.<sup>50</sup> Distributive perceptions of justice influence individual attitudes and behavior related to rewards.<sup>51</sup>

### *Procedural Justice*

Procedural justice emphasizes perceptions of fairness in the decision-making process by which outcomes are determined and allocated.<sup>52</sup> Empirical research has illustrated the unique influence of procedural justice on an organization concerning satisfaction, commitment for organizations, trust, organizational citizen behavior, performance, withdrawal, negative reactions<sup>53</sup> and social harmony.<sup>54</sup> Consistency, bias suppression, accuracy, correctness, representativeness and ethicality are six typical procedural justice rules.<sup>55</sup>

Procedural justice is a control-oriented theory comprising two types of control: process control and decision control.<sup>56</sup> Process control refers to control over the processes and the information used in decision making, and decision control is the control over final decision outcomes. Individuals will be more satisfied with procedures that provide them with control.<sup>57</sup>

### *Interpersonal Justice*

Interpersonal justice deals with respect and propriety, that is, how one person treats others,<sup>58</sup> based on the extent to which one is treated with dignity and politeness by authorities during the managerial processes.<sup>59</sup> Yamaguchi<sup>60</sup> argued that interpersonal communication is a core element in competitive practices among personnel. Furthermore, interpersonal justice moderates employee perceptions of merit pay and pay for performance policies.<sup>61</sup> Therefore, interpersonal justice strongly influences employee attitudes and behavior related to rewards.

### *Informational Justice*

Informational justice deals with justification and truthfulness, whether the appropriate information is provided to the right person,<sup>62</sup> with the focus on the extent to which one is provided with accurate explanations for the procedures

and the results in management.<sup>63</sup> Informational justice has a powerful influence on the relationship between individuals and the organization<sup>64</sup> and the attitudes and behaviors of employees with regard to rewards.

Four perceptions of justice are uniquely related to the effectiveness and satisfaction of extrinsic rewards.<sup>65</sup> This study explores the perceptions of employees related to justice in two extrinsic reward patterns.

## **Employee Perceptions of Justice in Reward Patterns**

Individual concerns are important indices for understanding perceptions of justice.<sup>66</sup> Forray<sup>67</sup> investigated five senior managers in five different businesses concerning their “experience with human resource managers” to determine how managers can maintain a fair organization. The daily interaction of managers with employees is an indication of employee concerns and perceptions of justice. Narcisse and Harcourt<sup>68</sup> interviewed 20 employees about their concerns regarding the appraisal of their performance to develop a better understanding of perceptions of justice. Moreover, Narcisse and Harcourt<sup>69</sup> identified new factors related to justice as they pertain to the concerns of employee presents, to determine how individual concerns could help researchers to understand employee perceptions of justice.

Employees in four different businesses in Taiwan including manufacturing, trade, restaurants and a cram school business participated in the current study. Participants in each business described their reward packages and concerns during interviews. Rewards packages and related concerns were classified as direct/indirect rewards in algorithmic/experiential patterns. Perceptions of justice following rewards could provide a reference for managers in planning a rewards strategy.

Due to the nature of rewards, rewards packages and the specific concerns of businesses do not necessarily follow the same patterns. For example, restaurants provide employee staff discounts in an algorithmic pattern, but cram school businesses provide tuition discounts for teachers’ or their friends’ children in an experiential pattern. Employee concerns related to discounts in the above businesses are therefore not the same. Restaurant employees are concerned with explicit and expected staff discounts; however, cram school staffs would like to maintain appropriate relationship with owners because the value of tuition discounts is various and decided by owners. Tables 1 to 4 present reward patterns, reward packages, employee concerns and perceptions of justice in each business. Table 5 reveals that employee perceptions of justice determine employee concerns related to various extrinsic reward patterns.

**Table 1.** Reward Patterns, Packages, Employees' Concerns and Perceptions of Justice in Manufacturing Business

Extrinsic Reward Patterns		Reward Packages	Employees' Concerns	Perceptions of Justice Within
Direct	Algorithmic	Basic salary Overtime pay Traffic fee allowance Bonuses for professional	Laggard of rewarding Announcement	Procedural justice Informational justice
	Experiential	Performance bonuses  Provide special bonuses privately	Unequal pay for equal work Laggard of rewarding Supervisor–subordinate relationship	Distributive justice Procedural justice Interpersonal justice
Indirect	Algorithmic	Festival gifts	Expectation for rewards Announcement	Distributive justice Informational justice
		Incentive tour Dormitory		
	Experiential	Nonscheduled refreshments Nonscheduled meals	Expectation for rewards	Distributive justice

**Table 2.** Reward Patterns, Packages, Employees' Concerns and Perceptions of Justice in Trading Business

Extrinsic Reward Patterns		Reward Packages	Employees' Concerns	Perceptions of Justice Within
Direct	Algorithmic	Basic salary Overtime pay Communication allowances Traffic fee allowances	Laggard of rewarding Announcement	Procedural justice Informational justice
	Experiential	Performance bonuses	Unequal pay for equal work Laggard of rewarding	Distributive justice Procedural justice
Indirect	Algorithmic	Festival gifts Incentive tour	Expectation for rewards	Distributive justice
	Experiential	Nonscheduled refreshments	Expectation for rewards	Distributive justice

**Table 3.** Reward Patterns, Packages, Employees' Concerns and Perceptions of Justice in Restaurant Business

Extrinsic Reward Patterns		Reward Packages	Employees' Concerns	Perceptions of Justice Within
Direct	Algorithmic	Basic salary Overtime pay	Laggard of rewarding	Procedural justice
	Experiential	Performance bonuses	Unequal pay for equal work Laggard of rewarding	Distributive justice Procedural justice
Indirect	Algorithmic	Festival gifts Staff discounts Meals	Expectation for rewards	Distributive justice
	Experiential	N/A	N/A	N/A

**Inquiry Results: Direct Rewards and Algorithmic Pattern**

Employees perceived procedural and informational justice when organizations provided them direct rewards by an

algorithmic pattern. It is important to employees whether they get their basic salary, overtime pay (except for cram school), traffic fee allowance (manufacturing and trading), professional bonuses (manufacturing), communication allowance (trading) and job-based pay (cram school)

**Table 4.** Reward Patterns, Packages, Employees' Concerns and Perceptions of Justice in Cram School Business

Extrinsic Reward Patterns		Reward Packages	Employees' Concerns	Perceptions of Justice Within
Direct	Algorithmic	Basic salary Job-based pay	Laggard of rewarding Announcement	Procedural justice Informational justice
	Experiential	Performance bonuses	Unequal pay for equal work Laggard of rewarding	Distributive justice Procedural justice
Indirect	Algorithmic	Festival gifts Meals	Expectation for rewards	Distributive justice
	Experiential	Nonscheduled refreshments	Expectation for rewards	Distributive justice
		Tuition discounts	Supervisor–subordinate relationship	Interpersonal justice

**Table 5.** Employees' Perceptions of Justice Within Extrinsic Reward Patterns

Extrinsic Reward Patterns	Employees' Perceptions of Justice Within	
Direct	Algorithmic	Procedural and informational justice
	Experiential	Distributive, procedural and interpersonal justice
Indirect	Algorithmic	Distributive and informational justice
	Experiential	Distributive and interpersonal justice

on or before payday. In addition, in the manufacturing, trading and cram school businesses, employees consider the announcement of information related to job evaluation to be very important. Employees in the above three areas tend to understand the evaluation of jobs, for example, the monetary rewards for gaining a specific license or becoming a mentor. These results are in agreement with the findings of Andersson-Strberg et al.,<sup>70</sup> Dulebohn and Martocchio,<sup>71</sup> Greenberg,<sup>72</sup> Kuvaas,<sup>73</sup> Kwon et al.,<sup>74</sup> Roch and Shanock<sup>75</sup> and Tremblay et al.,<sup>76</sup> in which employees perceive procedural and informational justice in direct rewards.

#### *Inquiry Results: Direct Rewards and Experiential Pattern*

Employees perceived distributive, procedural and interpersonal justice (only in manufacturing) when organizations provided them direct rewards by an experiential pattern. Employees care whether managers are capable of equally evaluating the input/output ratio of employees in providing performance bonuses. Employees are also concerned for whether they receive monetary rewards on time. Special private bonuses in the manufacturing business reveal employee perceptions of interpersonal justice from the supervisor–subordinate relationship related to direct experiential rewards. These results are in agreement with the notions of Andersson-Strberg et al.,<sup>77</sup> Salimäki and Jämsén,<sup>78</sup> St-Onge,<sup>79</sup> and van Dijke et al.<sup>80</sup>

that employees perceive distributive, procedural and interpersonal justice in direct rewards.

#### *Inquiry Results: Indirect Rewards and Algorithmic Pattern*

Employees perceived distributive and informational justice (only in manufacturing) when organizations provided them indirect rewards by an algorithmic pattern. Employees hope for festival gifts, incentive tours (manufacturing and trading), staff discounts (restaurant) and meals (restaurant and cram school). Employees compare their expectations with actual rewards to form perceptions of distributive justice. The information demands of employees (announcement requests) for dormitories (manufacturing) indicate their perceptions of informational justice related to indirect algorithmic rewards. The results correspond with those of Arnold and Spell,<sup>81</sup> Camerman et al.,<sup>82</sup> Danehower and Lust,<sup>83</sup> Howard,<sup>84</sup> Pfeifer,<sup>85</sup> Tremblay et al.<sup>86</sup> and Wu and Wang,<sup>87</sup> suggesting that employees perceive distributive and informational justice related to indirect rewards.

#### *Inquiry Results: Indirect Rewards and Experiential Pattern*

Employees perceived distributive and interpersonal justice when organizations provided them indirect rewards by an experiential pattern. Employees have the expectation

of nonscheduled feedback (except for restaurant). Managers like to provide nonscheduled feedback especially when they perceive employee's work efforts or good attitude. Employees enjoy receiving rewards in line with or exceeding their expectations. Employees perceive distributive justice in experiential indirect rewards according to their expectations.

In addition, the cram school business provides tuition discounts as an experiential indirect reward. The value of tuition discounts is dependent on the competencies an employee has. Cram school owners reveal high respect and propriety to employees and make them to accept various discounts and perceive interpersonal justice within experiential indirect rewards. Restaurants do not provide indirect experiential rewards, and employees consequently have no concerns or perceptions of justice related to the organization. These results correspond with those of Arnold and Spell,<sup>88</sup> Camerman et al.,<sup>89</sup> Colquitt et al.,<sup>90</sup> Danehower and Lust,<sup>91</sup> Howard,<sup>92</sup> Pfeifer,<sup>93</sup> Tremblay et al.<sup>94</sup> and Yamaguchi,<sup>95</sup> suggesting that employees have distributive and interpersonal perceptions of justice to indirect rewards.

## Discussion

Environment influences human's perceptions.<sup>96</sup> Although previous researchers suggested that employee perceptions for justice are essential successful factors for business, few focused on environment influences. The current study suggests that reward patterns and other environment factors heavily affect employee perceptions for justice.

The purpose of the current study was to investigate employee perceptions of justice and discuss what managers can do to match expectations of justice according to two distinct extrinsic reward patterns. In the inquiry of four different businesses in Taiwan, we determined that employees perceive fairness according to the characteristics of extrinsic rewards. These results are in line with past research indicating that employees perceive justice related to direct/indirect rewards, even in different businesses. Employees differ in their perceptions of justice to algorithmic/experiential reward patterns, and managers can observe these concepts in the previous researches on justice in at least four different businesses. These results provide the following empirical suggestions.

### Empirical Suggestions

First, each industry or organization has specific rewards for employees. Even though reward items are given the same name, the reward patterns are not necessarily the same. In this inquiry, only restaurants and cram school businesses provided discounts as indirect rewards, while manufacturing and trading business did not.

Characteristics of individual industries provide an explanation for the above differences. Clients of manufacturing and trading companies are businesses, that is, B2B. Employees cannot buy these products; therefore, they do not need discounts as rewards. In addition, the restaurant and cram school business do not provide discounts using the same reward patterns. Companies have to provide rewards according to appropriate reward patterns specific to the industry or organization.

Second, employees perceive fairness differently according to different extrinsic rewards and reward patterns. Managers could explore the perceptions of employees related to justice using a qualitative interview or the quantitative questionnaire developed by Colquitt.<sup>97</sup> Managers must ascertain the perceptions of justice related to rewards to determine their effectiveness. For example, Miller and Nicols<sup>98</sup> and Salimäki and Jämsén<sup>99</sup> suggested that perceptions of politics, the locus of control and leader-member exchanges influence the distributive justice of employees. Once managers ascertain that employees have lower perceptions of distributive justice, managers could improve distributive fairness by lowering awareness of politics, understanding employees personal characteristics and enhancing exchange relationships.

As for the lower procedural, interpersonal and informational justice, Brashear et al.<sup>100</sup> suggested that empowerment improves procedural perceptions of justice in reward decisions and communication and explanations increase the interpersonal and informational justice perceived by employees.<sup>101</sup> If the efforts above still fail to improve employees' perceptions of justice, managers could consider having professional suggestions from the third party to improve employees' perceptions of justice.

## Conclusion

The current study points out that employees have different justice perceptions in various business environments and reward patterns. Perceptions of employees related to justice in various reward patterns are important to the effectiveness of rewards. This study found that rewards are distinctive to the characteristics of specific industries and organizations. Meanwhile, justice is one of the main perceptible factors in future extrinsic rewards.<sup>102</sup> Managers have to understand the perceptions of employees related to justice, by determining appropriate methods to improve fairness and avoid perceptions of injustice before injuries occur.

Justice and rewards issues are not new in business administration studies, but the current study is the first in inquiring the relationship between reward patterns and employee perceptions for justice. Previous studies that focused on justice perceptions for reward packages lack for the influences of reward pattern differences. However,

employees can perceive these differences and sometimes the differences become a blind spot in administration, and the injustice danger would occur. To avoid the dangerous predicament, the current study went deep into reward pattern differences for future justice and rewards issues, and four business inquiries further provide actual situations to help managers understanding how to ascertain employee perceptions for justice. The results also suggest managers must start to care about employee perceptions for justice in various reward patterns.

### Limitations and Suggestions for Future Research

The current study provides a concept of employee perceptions of justice in extrinsic reward patterns and has some limitations and suggestions for future research. First, employee perceptions are extensive covering areas such as perceptions of support from the organization, politics, leader–member exchange and satisfaction. The above variables might have specific influences on extrinsic rewards in algorithmic/experiential patterns.

Second, an exact empirical research would be helpful in proving employee perceptions of justice to extrinsic rewards in algorithmic/experiential patterns. Qualitative and quantitative studies are necessary to extend justice research in rewards and human resource management. Finally, managers need a bridge between research and practical implementation. Future research shall do more efforts on the connection of theory and practice.

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