

# Pay for Performance, Performance Management, and Internal Promotional Opportunities of Human Resource Practices with Job Performance

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## Abstract

This study explores the relationship and the impact of pay for performance, performance management, and internal promotional opportunities of human resources practices toward task performance and contextual performance of job performance. The study was conducted on the electrical and electronics (E&E) engineers in the Bayan Lepas Free Trade Zone, Penang. Self-administered questionnaires were distributed through the E&E manufacturing companies' human resource managers. A total of 1,100 questionnaires were distributed that adapted and adopted the research tools of Rhoades et al. on pay for performance, Allen et al. on performance management, Wayne et al. on internal promotional opportunities, Williams and Anderson on task performance, and Hochwarter et al. on contextual performance. A total of 181 were returned but 150 questionnaires were useable for this study. The engineers indicated that only the internal promotional opportunities had a relationship with task performance and contextual performance. On the other hand, pay for performance and performance management had a relationship with contextual performance but not with task performance. Moreover, engineers indicated that none of the human resource practices, namely pay for performance, performance management, and internal promotional opportunities, had an impact on both of their job performance, namely task performance and contextual performance.

**Keywords:** pay for performance, performance management, internal promotional opportunities, task performance, contextual performance

## 1. Introduction

A great deal of research effort has focused on discovering the effects of human resource management (HRM) on the businesses and organization at the organization or strategic level (Becker & Gerhart, 1996). The relationship between HRM and firm performance has received extensive considerable attention from researchers (Li, Zhao, & Liu, 2006; Sanchez, Jimenez, Carnicer, & Perez, 2007; Lin & Chen, 2007). A vast amount of research has proved the positive relationship between HRM and firms' performances in terms of sales revenue, profitability, net asset ROI, and market share (Huselid, 1995; Schuler & Jackson, 1987; Hill & Rothaermel, 2003).

Organizations have increasingly recognized the potential for their people to be a source of competitive advantage (Pfeffer, 1994). Creating competitive advantage through people requires careful attention to the practices that best leverage these assets. There should be more studies addresses the employee work outcomes, such as work performance, from the employees' standpoints. Moreover, it should be a clear relationship between the experience of human resource management (HRM) practices and positive employee attitudes, reflecting their needs are being met, and increasing employee commitment and performance as well as improved productivity. Surprisingly, most of the research and reporting on HRM had ignored the views of employees. Legge (1998) points out that when reading accounts of HRM practices in the United Kingdom and North America it was noticeable the extent to which the data are the voices of management. Moreover, Guest (1999) claimed that from its conception human resource management reflected a management agenda to the neglect of workers' concerns. Some studies had considered employee reactions to HRM (Gibb, 2001; Appelbaum and Berg, 2000; Mabey et al., 1998) but Guest (2002) was perceptive in his criticism that a feature of both advocates and critics of HRM is their neglect of direct evidence about the role and reactions of workers. Even the exceptions noted which gave employee reactions to HRM did not relate the employee experience of HRM practices to their reactions. Thus, the researcher conceptualized this approach where the employee is the main concern or the employee as the

intended recipient of the programs or practices developed by the organization as the employee standpoint view.

A limited number of researchers had established the relationship between human resource practices and employee performance but they mainly discuss on developed countries (Schuler & Jackson, 1987) and a number of researchers have reported that human resource practices were positively related to organizational and employee performance (Guest, 2002; Harley, 2002; Gould-Williams, 2003; Park et al., 2003; Wright et al., 2003; Tessema & Soeters, 2006). Thus, the objectives of this study are to investigate the relationship and the impact between pay for performance, performance management, and internal promotional opportunities of human resources practices toward task performance and contextual performance of job performance among engineers.

## **2. Literature Review**

### *2.1 Job Performance*

Job performance, namely task performance and contextual performance, had been considered as an important variable in industrial and organizational psychology, such as employee training and job redesigning, the focus is almost always on improving job performance (Borman, 2004). The distinction between task performance and contextual performance has gained wide acceptance in the literature investigating behavior at work (Conway, 1999; Griffin et al., 2000; Van Scotter & Motowidlo, 1996). These performances were presumed had contributed to organizational effectiveness (Kiker & Motowidlo, 1999).

#### *2.1.1 Task Performance*

Task performance was considered when employees are using technical skills and knowledge to produce goods or services through the organization's core technical processes, or when they accomplish specialized tasks that support these core functions (Borman & Motowidlo, 1993). Furthermore, Motowidlo et al. (1997) stated that task performance can be seen as the activities that transform raw materials into the goods and services that are the organization's products such as selling merchandise in a retail store, operating a production machine in a manufacturing plant, teaching in a school, performing surgery in a hospital, and cashing checks in a bank. Moreover, the task performance consists of activities that service and maintain the technical core by replenishing its supply of raw materials; distributing its finished products; or providing important planning, coordination, supervising, or staff functions that enable it to function effectively and efficiently. Thus, task performance bears a direct relation to the organization's technical core, either by executing its technical process or by maintaining and serving its technical requirements.

#### *2.2.2 Contextual Performance*

Werner (2000) stated that contextual performance as individual efforts that are not directly related to their main task function but are important because they shape the organizational, social, and psychological context that serves as the critical catalyst for task activities and processes. In this context, when employees voluntarily help his/her co-workers who are lacking behind, act in ways that maintain good working relationships, or put in extra effort to complete an assignment on time, they are engaging in contextual performance. Moreover, contextual performance is conceptualized as being under the motivational control of individuals and less constrained by work characteristics than task performance (Borman & Motowidlo, 1993). It is generally assumed that individuals can engage in contextual activities if they wish and that this choice reflects individual differences in motivation (Motowidlo et al., 1997). Contextual performance behaviors involving persistence, effort, compliance, and self-discipline might enhance the effectiveness of individual workers and managers (Motowidlo et al., 1997), coworkers' and supervisors' productivity (Borman, 2004).

### *2.2 Human Resources Practices*

#### *2.2.1 Pay for Performance*

Pay is associated with firm performance (Gerhardt & Milkovich, 1992). Moreover, the pay is also considered one of the most significant costs of operating a business. Although it influences hiring and retention, it can be powerful in aligning employees' interest with organizational goals by providing rewards for meeting specific goals. Being rewarded performance signals that the organization values an employee's contribution, is willing to invest in the employee and cares about his/her well-being. Research suggests that rewards linked to performance are especially powerful (Fasolo, 1995; Rhoades et al, 2001). Moreover, pay for performance had been implemented in the health care industry on improving the quality of health care business (Mullen, Frank & Rosenthal, 2010; Werner, Kolstad, Stuart & Polsky, 2011).

### 2.2.2 Performance Management

Performance management is the process through which the organization ensures that employee activities are congruent with organizational goals. The performance evaluation process implies that the organization is willing to reward high performance and is interested in improving the employees' future performance. Studies in manufacturing found results-oriented appraisal systems were positively related to return on assets (Snell & Youndt, 1995). Managing employee behavior and setting objectives which are linked to organizational strategy and goals willed to organizational goals. Participants in the goal-setting aspect of the performance management process indicate to employees that the organization values their input and is interested in helping the employee achieve his/her performance. Moreover, HRM has an important and unique influence on organizational performance (Becker & Gerhart, 1996).

### 2.2.3 Internal Promotional Opportunities

An aspect of staffing which deals primarily with the internal workforce is that of extending internal promotional opportunities to its organizational members. Offering the opportunity for advancement within the organization and promoting its employees is a form of recognizing their accomplishments. This signals to employees that the organization values their contributions and is willing to invest in them further by promoting them into positions of greater responsibility (Wayne et al., 1997).

### 2.3 Relationship between Human Resource Practices and Job Performance

Guest (2002), Harley (2002), and Park et al. (2003), they stated that human resource practices were instrumental in establishing employees' job performance. This study perceived and associated the human resource practices in the context of investment and recognition of their employees' contribution to the organizations' success on the vision and mission (Allen et al., 2003; Rhoades & Eisenberger, 2002; Wayne et al., 1997). Thus, this study depicts the association between human resource practices, namely pay for performance, performance management, and internal promotion opportunities with job performance, namely task performance and contextual performance.

### 2.4 Theoretical Framework

Based on the above reviews, this study depicts the framework in Figure 1. The study's framework associates human resource practices, namely pay for performance, performance management, and internal promotion opportunities with job performance, task performance and contextual performance.

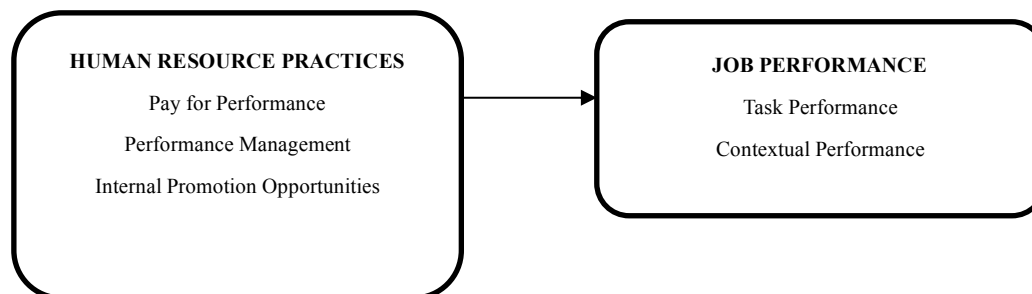


Figure 1. Study's Framework

### 2.5 Hypotheses

This study develops the following hypotheses in examining the impact between pay for performance, performance management, and internal promotional opportunities of human resources practices toward task performance and contextual performance of job performance among engineers.

- H<sub>1</sub>: Pay for the performance of human resource practices has a significant relationship with task performance.
- H<sub>2</sub>: Performance management of human resource practices has a significant relationship with task performance.
- H<sub>3</sub>: Internal promotional opportunities for human resource practices have a significant relationship with task performance.
- H<sub>4</sub>: Pay for the performance of human resource practices has a significant relationship with contextual performance.

H<sub>5</sub>: Performance management of human resource practices has a significant relationship with contextual performance.

H<sub>6</sub>: Internal promotional opportunities for human resource practices have a significant relationship with contextual performance.

### 3. Methodology

The study employed self-administered questionnaires toward engineers in the electronics and electrical (E&E) manufacturing companies in the Bayan Lepas Industrial Zone in Penang, Malaysia. More than a thousand questionnaires were distributed among engineers in the trade zone. Moreover, engineers who had worked in the manufacturing companies more than 6-month were considered to take part in this study. Furthermore, this study defined engineers as who were having engineering qualifications either certificates, degree, and master. They were chosen as they were considered the core employees and their job functions were critical to the manufacturing companies' performance.

#### 3.1 Research Tools

This study had adapted and adopted various research tools as depicted in Table 1. The human resource practices had been examined on the pay for performance, performance management, and internal promotional opportunities. Firstly, Rhoades et al. (2001) had been used to pay for performance with 6-item variables ( $\alpha=0.90$ ) that asked on the following items:

1. There is a link between how well I perform my job and the likelihood of receiving a raised pay.
2. Pay raises for employees in this job are based on job performance.
3. My pay is tied to my performance.
4. In my company, raises and promotions are tied to performance.
5. Generally, I feel that my company rewards employees who make an extra effort.
6. In my company, I am recognized when I do a good job.

Secondly, Allen et al. (2003) had been used for performance management with 7-item variables ( $\alpha=0.90$ ) that asked on the following items:

1. I am satisfied with the amount of recognition I receive when I do a good job.
2. I understand what my performance will be based on.
3. My manager and discuss my goals and objectives often throughout the year.
4. During my performance appraisal session, I have ample opportunity to express my side of the performance issue.
5. During my performance appraisal, the setting of my work goals is pretty much under my control.
6. In my company, employees in this job regularly (at least once a year) receive a formal evaluation of their performance.
7. My performance evaluation is based on the results I achieve.

Thirdly, Wayne et al. (1997) had been used for internal promotional opportunities with 5-item variables ( $\alpha=0.86$ ) that asked on the following items:

1. In my company, promotions are regular.
2. I am in a dead-end job.
3. I have the opportunity for advancement in my company.
4. In my company, there is a good opportunity for advancement.
5. I have a good chance to get ahead in my company.

About the job performance, the research tools had adapted and adopted the works of Williams and Anderson (1991) and Hochwarter et al. (2004). Firstly, the task performance consisted of 7-item variables with an  $\alpha$  of 0.95; and the items were:

1. Fulfils responsibilities specified in the job description
2. Adequately completes assigned duties
3. Perform tasks that are expected of him/her

4. Meets formal performance requirements of the job
5. Engages in activities that will directly affect his/her performance evaluation
6. Neglects aspects of the job he/she is obligated to perform
7. Fails to perform essential duties

Secondly, the contextual performance had adapted and adopted the works of Hochwarter et al. (2004) that consisted of 8-item variables with an  $\alpha$  of 0.94; and the items were:

1. Help others without being asked.
2. Treat others properly.
3. Praise others.
4. Support and encourage others.
5. Put in extra hours to get the work done on time.
6. Tackle difficult work assignments enthusiastically.
7. Work harder than necessary.
8. Persist in overcoming obstacles to complete tasks

Table 1. Research tools' reliability

| Variables                          | Source                       | Items | $\alpha$ |
|------------------------------------|------------------------------|-------|----------|
| Pay for Performance                | Rhoades et al. (2001)        | 6     | 0.90     |
| Performance Management             | Allen et al. (2003)          | 7     | 0.90     |
| Internal Promotional Opportunities | Wayne et al. (1997)          | 5     | 0.86     |
| Task Performance                   | Williams and Anderson (1991) | 7     | 0.95     |
| Contextual Performance             | Hochwarter et al. (2004)     | 8     | 0.94     |

#### 4. Data Analysis and Results

A total of 181 questionnaires were collected and yielding response rate of 16.5%. From these, 31 responses were not usable. Thus, a total of 150 questionnaires with a useable rate of 13.6%. These data were analyzed using SPSS on the reliability analysis, demographic analysis, correlations analysis, and regression analysis.

##### 4.1 Reliability Analysis

The reliability analysis was conducted through the minimum acceptable value of the Cronbach's Alpha. All variables for human resource practices were used. Firstly, the 6-item of pay for performance had been used and gave an  $\alpha=0.88$ . Secondly, the 7-item of performance management had been used and gave an  $\alpha=0.78$ . Finally, 5-item of internal promotional opportunities had been used and gave an  $\alpha=0.84$ .

On the other hand, several items of the job performance variables had to be dropped due to the minimum acceptable value. Firstly, 2-item out of 7 of task performance had to be dropped and gave an  $\alpha=0.80$ . The items (1) "adequately completes assigned duties" and (2) "perform tasks that are expected of him/her" were dropped from task performance. Then, 3-item of contextual performance had to be dropped and gave an  $\alpha=0.86$ . The items (1) "help others without being asked", (2) "treat others properly", and "tackle difficult work assignments enthusiastically" were dropped from contextual performance.

Table 2. Reliability analysis

| Variables                          | Items | Item Drop | Items Used | $\alpha$ |
|------------------------------------|-------|-----------|------------|----------|
| Pay for Performance                | 6     | 0         | 6          | 0.88     |
| Performance Management             | 7     | 0         | 7          | 0.78     |
| Internal Promotional Opportunities | 5     | 0         | 5          | 0.84     |
| Task Performance                   | 7     | 2         | 5          | 0.80     |
| Contextual Performance             | 8     | 3         | 5          | 0.86     |

#### 4.2 Demographic Analysis

The demographic analysis was done on the engineers' gender, ethnicity, marital status, age, education, engineering specialization, organizational tenure, and working tenure is depicted in Table 3.

Interestingly in the context of E&E manufacturing sector, the majority of the employees were male (n=96, 64%) as compared to female (n=54, 36%). Moreover, the majority of the engineers were Chinese (n=82, 54.7%) as compared to 42 employees (28%) were Malay, 24 employees (16%) were Indian, and 2 employees (1.3%) were under other ethnicities. Engineers who were not married (n=96, 64%) has overwhelmed 54 employees (36%) who were married. Majority of the engineers were aged between 26 to 35 years old (n=110, 73.3%) as compared to 26 employees (17.3%) were between 18 to 25 years old, 13 employees (8.7%) were between 36 to 45 years old, and one employee was 46 years old and above (0.7%). As an engineer, majority of the them were having an engineering degree (n=114, 76%) as compared to other qualifications, namely master in engineering (n=13, 8.7%), engineering diploma (n=10, 6.7%), national certificate (n=8, 5.3%), and professional certificate (n=5, 3.3%). Majority of the engineers were specializing in Electronic & Electrical (n=97, 64.7%) as compared to Mechanical (n=38, 25.3%), Chemical (n=3, 2%), and other specializations (n=12, 8%).

Majority of them had been with the current organization between 2 to 5 years (n=102, 68%). The remaining engineers had been working less than 1 year (n=33, 22%), 6 to 9 years (n=13, 8.7%), and above 10 years (n=2, 1.4%) with the current manufacturing. Finally, their total working tenure as an engineer were between 2 to 5 years (n=85, 56.7%); and followed by 6 to 9 years (n=34, 22.7%), less than 1 year (n=15, 10%), 10 to 13 years (n=10, 6.7%), and above 14 years (n=6, 4.1%).

Table 3: Demographic analysis

| Item                                 | n   | %    |
|--------------------------------------|-----|------|
| <b>Gender</b>                        |     |      |
| • Male                               | 96  | 64.0 |
| • Female                             | 54  | 36.0 |
| <b>Ethnicity</b>                     |     |      |
| • Malay                              | 42  | 28.0 |
| • Chinese                            | 82  | 54.7 |
| • Indian                             | 24  | 16.0 |
| • Others                             | 2   | 1.3  |
| <b>Marital Status</b>                |     |      |
| • Married                            | 54  | 36.0 |
| • Single                             | 96  | 64.0 |
| <b>Age (years old)</b>               |     |      |
| • 18 to 25                           | 26  | 17.3 |
| • 26 to 35                           | 110 | 73.3 |
| • 36 to 45                           | 13  | 8.7  |
| • 46 and above                       | 1   | 0.7  |
| <b>Education</b>                     |     |      |
| • National Certificate               | 8   | 5.3  |
| • Professional Certificate           | 5   | 3.3  |
| • Engineering Diploma                | 10  | 6.7  |
| • Engineering Degree                 | 114 | 76.0 |
| • Master in Engineering              | 13  | 8.7  |
| <b>Engineering Specialization</b>    |     |      |
| • Electronic & Electrical            | 97  | 64.7 |
| • Mechanical                         | 38  | 25.3 |
| • Chemical                           | 3   | 2.0  |
| • Others                             | 12  | 8.0  |
| <b>Organizational Tenure (years)</b> |     |      |
| • Less than 1 year                   | 33  | 22.0 |
| • 2 to 5 years                       | 102 | 68.0 |
| • 6 to 9 years                       | 13  | 8.7  |
| • Above 10 years                     | 2   | 1.4  |
| <b>Working Tenure (years)</b>        |     |      |
| • Less than 1 year                   | 15  | 10.0 |
| • 2 to 5 years                       | 85  | 56.7 |
| • 6 to 9 years                       | 34  | 22.7 |
| • 10 to 13 years                     | 10  | 6.7  |
| • Above 14 years                     | 6   | 4.1  |

### 4.3 Correlations Analysis

The correlations analysis was conducted between human resource practices and job performance among E&E engineers. The engineers indicated that their task performance had a low ( $r=0.17$ ) relationship with internal promotional opportunities. Unfortunately, they indicated that task performance had no relationship toward pay for performance and performance management. On the other hand, the engineers indicated that their contextual performance had a moderate relationship toward pay for performance ( $r=0.30$ ), performance management ( $r=0.31$ ), and internal promotional opportunities ( $r=0.33$ ).

Table 4. Correlations analysis

| Variables                            | 1      | 2      | 3      | 4      |
|--------------------------------------|--------|--------|--------|--------|
| 1 Pay for Performance                | 1      |        |        |        |
| 2 Performance Management             | 0.62** | 1      |        |        |
| 3 Internal Promotional Opportunities | 0.59** | 0.57** | 1      |        |
| 4 Task Performance                   | 0.12   | 0.08   | 0.17*  | 1      |
| 5 Contextual Performance             | 0.30** | 0.31** | 0.33** | 0.53** |

Note. \* $p<.05$ ; \*\* $p<.01$

### 4.4 Regression Analysis

Regression analysis was conducted between human resource practices, namely pay for performance, performance management, and internal promotional opportunities toward job performance namely task performance and contextual performance. Interestingly, the engineers had indicated that none of the human resource practices had an impact on their job performance. These were indicated by the insignificance value of beta. In summary, the pay for performance ( $\beta=-0.10$ ,  $p>0.1$ ), performance management ( $\beta=0.08$ ,  $p>0.1$ ), and internal promotional opportunities ( $\beta=-0.06$ ,  $p>0.1$ ) was not a significant predictor for task performance. Moreover, the pay for performance ( $\beta=-0.04$ ,  $p>0.1$ ), performance management ( $\beta=0.06$ ,  $p>0.1$ ), and internal promotional opportunities ( $\beta=0.02$ ,  $p>0.1$ ) was also not a significant predictor for contextual performance.

Table 5. Regression analysis

| Human Resource Practices           | Job Performance  |      |                        |      |
|------------------------------------|------------------|------|------------------------|------|
|                                    | Task Performance |      | Contextual Performance |      |
|                                    | $\beta$          | Sig. | $\beta$                | Sig. |
| Pay for Performance                | -0.10            | Nil  | -0.04                  | Nil  |
| Performance Management             | 0.08             | Nil  | 0.06                   | Nil  |
| Internal promotional opportunities | -0.06            | Nil  | 0.02                   | Nil  |

Thus all the hypotheses are depicted in Table 6,  $H_1$  to  $H_6$ , were not supported in explaining the engineers on their manufacturing company's human resource practices and job performance. Interestingly, the engineers' task performance and contextual performance were not influenced or affected by their manufacturing company's pay for performance, performance management, and internal promotional opportunities.

Table 6. Regression analysis results

| Hypothesis   | Result        |
|--|---------------|
| $H_1$ : Pay for the performance of human resource practices has a significant relationship with task performance.                    | Not Supported |
| $H_2$ : Performance management of human resource practices has a significant relationship with task performance.                     | Not Supported |
| $H_3$ : Internal promotional opportunities for human resource practices have a significant relationship with task performance.       | Not Supported |
| $H_4$ : Pay for the performance of human resource practices has a significant relationship with contextual performance.              | Not Supported |
| $H_5$ : Performance management of human resource practices has a significant relationship with contextual performance.               | Not Supported |
| $H_6$ : Internal promotional opportunities for human resource practices have a significant relationship with contextual performance. | Not Supported |

## 5. Discussion & Conclusion

The engineers had indicated on their perspective of task performance and contextual performance concerning human resource practices done by their manufacturing companies, namely pay for performance, performance management, and internal promotional opportunities. The manufacturing companies need to be well informed on their engineers perspective on the relationship between task performance and the companies' internal promotional opportunities. Engineers indicated that, although the relationship was too low, they were looking forward to their manufacturing companies' internal promotional opportunities that relate to their task performance. Thus, engineers would place high regard if their manufacturing companies perceived on their skills and knowledge toward their career advancement in the company.

Moreover, engineers indicated their perspective on the contextual performance that shaped their organizational, social, and psychological context in the manufacturing companies. The contextual performance of engineers was associated moderately with their pay for performance, performance management, and internal promotional opportunities. Thus, for the manufacturing companies to motivate their engineers, they communicate on the firm performance regularly to their engineers. This would give positive motivation to the engineers on their direct and indirect contributions that further impacted on their organizational, social, and psychological behavior. The manufacturing companies also should communicate on the engineers' work activities that had made the companies achieved their organizational goals. Finally, the manufacturing companies should provide an internal promotional exercise and encouraging their engineers to apply for the promotion and their career advancement in the companies.

Interestingly, engineers indicate that the components of human resource practices, namely pay for performance, performance management, and internal promotional opportunities did not support their job performance, regardless of the task performance and/or contextual performance. Thus, there are some other components of human resources practices that affect the engineers' job performance in which need to be explored further.

In conclusion, the E&E manufacturing companies should be portrayed and communicated their efforts to their engineers on their human resource practices, specifically on the pay for performance, performance management, and internal promotional opportunities. Moreover, these practices would affect the engineers' job performance, specifically on their task performance and contextual performance.

## 6. Limitations and Future Study

The HRM practices investigated in this study were limited in scope. Only HR practices on pay for performance, performance management, and internal promotional opportunities were examined. Other HRM practices, such as selection and recruitment, HR planning, safety and health, and employee relations may play a role in shaping employees behavioral outcomes. Future study is suggested that the research could be duplicated with a larger sample from different regions within the same industry or across different industries. The use of a larger sample within the same industry or from the other industries would improve the generalizability of the findings.

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