

# **PERFORMANCE-BASED REWARD SYSTEMS AND PERCEIVED JUSTICE: A CASE OF MOTORBIKE DEALER IN PONTIANAK**

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## **ABSTRACT**

This paper discusses the practices of reward granting and the performance measurement systems in Dealer X and examines its success factors from perspectives of perceived justice. To explore the practice in depth, we employ intensive case study method to illustrate how performance measurement and reward systems are intertwined in Dealer X that creates satisfaction of pay and the system itself and analyze the satisfaction level from the context of justice. The analysis is then grouped into, based on, four dimensions of perceived justice, namely procedural justice, distributive justice, informational justice and interpersonal justice. From this study, we find that employees' satisfaction toward existing systems is mainly driven by the perception of justice in their workplace. Furthermore, pay satisfaction is found to be more enhanced by the feeling of distributive justice because it relates with the amount of reward received. Since there is self-interest bias, distributive justice is more dominant than other dimensions to shape the total perception of justice. Therefore, the control system designers should be aware of and consider the dimensions of perceived justice when installing performance measurement and reward systems into organizations.

**Keywords:** Control Systems; Performance Measurement; Reward Systems; Perceived Justice; Motorbike Dealer.

## **1. INTRODUCTION**

People are considered to be a key success factor for the strategy implementation in most companies. Because people are the strategy executor, more attentions are now drawn to manage them in the best interest of the organization. Humans, however, basically bear life agenda and self-interest in their minds. They will be more likely to engage in effort-aversion behaviors (Merchant & Van der Stede, 2012) if their personal objectives are not fulfilled. This indeed arouses a debate about how to achieve goal-congruent practices. Anthony and Govindarajan (2007) argue that adequate controls are needed to encourage individuals achieving personal goals that are consistent with those of the organization.

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Management control systems are aimed to influence human behaviors toward achieving organization objectives (Belkaoui, 2002; Drury, 2012), but how to influence and to what extent the change needed depend upon the company strategies. To discuss this issue, we should cover both accounting and psychology viewpoints, as it is dealing with people reactions toward control systems (Anthony, 2003). Therefore, Anthony (2003) suggests that control issues should be understood in terms of human motivation. To increase employee motivation, for instance, control tools, such as reward systems, are believed to be effective as long as they are tied with performance (Fitzgerald, 2007; Otley, 2005).

Nevertheless, prior researches show mixed results about the effectiveness of performance-based reward systems creating motivational effects (Bonner & Sprinkle, 2002). Some studies report that reward systems has successfully improved the company performance in many industries, e.g. in hotel industry (Banker, Potter, & Srinivasan, 2000) and in real estate industry (Azasu, 2009). Other also notes that employees gain more satisfaction from their pay when it is related to their performance measurement (Ducharme, Singh, & Podolsky, 2005) and when right types of rewards are granted to right groups of people and cultural norms (Allen & Helms, 2001; Allen, Takeda, White, & Helms, 2004; Howard & Dougherty, 2004; Libby & Thorne, 2009). In contrast, Pfeffer and colleagues' work, cited by Cropanzano, Bowen, and Gilliland (2007), shows that reward systems can be occasionally ineffective. Furthermore, Chong and Eggleton (2007) find that the performance of managers with high organizational commitment is not affected by the implementation of reward systems and vice versa. Their findings also indicate some contingent factors which enhances the effect of reward systems to organization performance. Therefore, we feel interested to examine the practice of the performance measurement and reward systems from a different perspective, namely the perspective of justice.

Following the frameworks given in the previous researches, such as Colquitt (2001), Cole and Flint (2005), Avery, Tonidandel, Volpone, and Raghuram (2010) and Chen and Fu (2011), we design our research to understand the dimensions of justice in the case company and show the linkage of these dimensions with the performance measurement and reward systems. Along with our intention of viewing the systems from a different perspective, we use another research setting, which is small and medium enterprise (SME). It also differentiates ours from the previous studies. We believe that the design and organizational contexts of control systems in SME may be different from those in large enterprises. Chapman (1999) also argues that the dynamics of employee relations and control systems in SME may be the matter of firm size, sectors and operating environments but the linkage is not fully clear. Therefore, he calls for further studies of how and why SMEs use certain control systems and retain good employee relations. This call also inspires us to study further.

To have a complete discussion about these issues, we review some relevant literatures in the next section. We also provide a full section for discussing research method and the case company. We, then, elaborate the practice of performance measurement and reward systems in Dealer X and show the evidence of perceived justice dimensions forming employees' satisfaction. In the last section, we conclude.

## 2. LITERATURE REVIEW

In the past, performance measurement systems were defined as the process of comparing the expected performance with the actual one (Anthony, 1989). Therefore, the management control, which was identical with management accounting for the most parts (Otley, 1999), was reported to show the accounting numbers about past performance, but the information about the future impact of current managerial decisions that was more valuable was not existed (Anthony, 1989). In other words, the performance measurement systems only focus on an accounting performance. Otley, Broadbent, and Berry (1995, p. S31) conclude that the old version of management control, which was derived mainly from the accounting-based framework, had been “unnecessarily restricted” so it offers “the imperfect reflection of management model of control.”

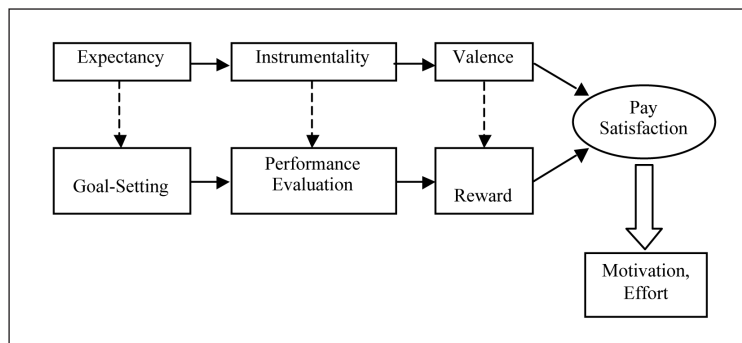
As a consequence, when we talk about the performance measurement systems, we cannot use Anthony’s (1989) framework for further reference because we need to see the entire operation of control systems. In so doing, we have already gone beyond the measurement process and involved in managing the performance (Otley, 1999). Regardless of the types, the applied control systems should relate to the intended strategies, operational activities, and external context of the organization (Otley, 1999) so the control mechanism actually serves as a performance management system. The performance management systems can also be understood as an integrating framework for managing organizational performance that relates to the activities of communicating the organization vision, mission and objectives, building and implementing the strategies and plans, setting performance measures and targets, evaluating performance and rewarding and finally determining how the information flows in the organization (Ferreira & Otley, 2009; Otley, 1999).

As performance management is an inseparable part of the company control systems, it should be able to influence people’s behaviors and motivate them to act on the organization’s best interest (Anthony & Govindarajan, 2007; Otley, 1999). In their research, Ducharme et al. (2005) reveals that the existence of performance measurement, either it links with rewards or not, creates more pay satisfaction for the employees who receive the reward. They also note that the individuals who receive reward based on the performance measurement perceive the highest pay satisfaction.

To understand this tendency, expectancy theory describes that individuals are more likely being motivated to react based on their expectation of the result; therefore, motivation is a combination effects of the effort needed, achieved level of performance and the expected outcome or reward based on the effort (Leverment, 2002). These three variables usually refer to the academic term of ‘expectancy’, ‘instrumentality’ and ‘valence’. Using a mathematical equation, individual’s motivation is defined as the multiplication of expectancy and valence. Vroom (1964) in Belkaoui (2002, p. 24) adds that “... [individual’s] behavior is affected not only by his preferences among outcomes, but also by the degree to which he believes these outcomes to be probable.” Hence, expectancy theory may be useful to describe the motivational effects of performance-based reward scheme (Ducharme et al., 2005).

Ducharme et al. (2005) find three phases of overall control systems that are similar to the proposed variables in expectancy theory, viz. goal-setting, performance measurement and rewards. (See Figure 1) In a performance-based reward system, employees' expectancy is set during the goal setting stage. In this stage, both managers and subordinates accept the given performance targets and goals over the measurement period. Instrumentality usually refers to the performance measurement stage, where the employees' level of performance is measured and recorded. Lastly, valence is represented in the process of converting the assessment into financial or nonfinancial rewards and then allocating them to the right employees. In the viewpoints of Ducharme et al. (2005), when performance is assessed accurately, the employee will be able to perceive the link between *performance expectation* and *outcomes*.

**Figure 1:** Expectancy Theory: Links To Pay Satisfaction



**Source:** Ducharme et al. (2005)

Although Ducharme et al. (2005) build whole framework based on expectancy theory and try to find the synonymous reference in the control process, we do not think that control systems will operate as ideal as it is proposed. For instance, Burney, Henle, and Widener (2009) cannot find a direct causal path from strategic performance measurement systems (SPMS) incentive plan to job performance because of no better statistical fitting than their first proposed model. Instead, their results show that SPMS incentive plan positively affects two dimensions of perceived justice, viz. distributive justice and procedural justice, in turn, promotes the organizational citizenship behaviors and job performance. Hence, we believe that another contextual factor possibly affects control operations, namely the perceived justice.

The control processes and outcomes is said to be just if people feel and experience fair treatment corresponding to the final outcome, process and decision controllability, social interactions and information availability (Colquitt, 2001). According to four-factor justice model suggested by Chen and Fu (2011), there are four dimensions of perceived justice, namely procedural justice, distributive justice, informational justice and interpersonal justice.

People regard the performance measurement to be procedurally just when the processes and procedures to make decisions and allocating rewards are fair (Cole & Flint, 2005; Terpstra &

Honoree, 2003) and fulfill two main criteria, which are process control and decision control (Colquitt, 2001). Process control concerns about one's ability to control the process and the types of information used in performance measurement and reward granting, whereas, decision control refers to the ability to control the final outcomes (Chen & Fu, 2011; Colquitt, 2001). In the context of equity of reward distribution, Terpstra and Honoree (2003) prove that procedural justice is the most important determinant of employee pay satisfaction. This finding provides a solid evidence to support the argument of Ducharme et al. (2005) that when the performance measurement is linked to reward, the employees will perceive the process fair and satisfy with their pay.

Distributive justice, the second dimension of perceived justice, relates to the perceived justice of outcomes, including rewards and benefits (Chen & Fu, 2011; Cole & Flint, 2005). There are three principles used to assess distributive justice, viz. equity, equality and needs (Cropanzano et al., 2007). The equity principle states that people should receive appropriate outcomes compared to their inputs. Under the equality principle, people should receive the same outcome or allocations like others. The need principle states that allocation rules are set according to their needs and urgencies. These three principles, however, often conflict each other (Cole & Flint, 2005) and reduce the perceptions of distributive justice. To remedy the shortcomings, other dimensions of justice, viz. procedural justice and interactional justice, can serve as a sort of buffer (Cropanzano et al., 2007) because employees believe that fair outcome comes from fair procedures (Burney et al., 2009) and fair treatments.

In old literatures, many theorists consider interactional justice as a social aspect of procedural justice (Bies, 2001; Hartmann & Slapnicar, 2012). Nonetheless, Bies and colleagues argue that interactional justice are different from procedural justice, as it concerns about how employee are being treated during the implementation of organization procedures, so they conceptualize it as the third dimension of justice (Bies, 2001). To obtain precise definitions, Greenberg, in his two papers published in 1990s, extends the measures and divide the interactional justice into two dimensions as it is known today (Colquitt, 2001; Colquitt, Conlon, Wesson, Porter, & Ng, 2001). Informational justice focuses on giving someone right explanations about procedures and results of decision making clearly and honestly (Chen & Fu, 2011; Colquitt et al., 2001). It also asks the superior to provide good reasons for any decisions made and give a feedback in timely basis after the decision (Colquitt, 2001). Meanwhile, interpersonal justice relates to proper and respectful treatment of supervisor to the subordinates (Colquitt, 2001), that is, "the extent to which one is treated with dignity and politeness by authorities during the managerial processes" (Chen & Fu, 2011, p. 363).

To summarize, perceptions of justice are important factors to increase the effectiveness of rewarding processes and impart pay satisfaction (Chen & Fu, 2011). Fair procedures and treatments to subordinates are more likely to motivate them to perform better because they become more committed to attain the goals of organization (Simons & Roberson, 2003). Thus, these justice dimensions can be used to explain the phenomena in all phases in decision-making processes, viz. the stage of information collecting, decision-rule selecting, and outcome communication (Hartmann & Slapnicar, 2009).

### 3. RESEARCH METHODS AND CASE STUDY SITE

#### 3.1. Research Methods

In this study, we adopt a single case study research because it can provide a better understanding of the practices, roles and functions of control systems, mainly the performance measurement and reward systems, and give an explanation of certain circumstances happened in this case company (Humphrey & Scapens, 1996; Scapens, 1990). This study also focuses on providing a holistic picture of events, styles, routines and policies that shapes the control systems and giving description of what has been done to increase employees' motivation and their performance and in turn, increase the company performance (Scapens, 1990).

Based on the scope of the research, this study is categorized into *intensive case study*, where the aims are to give a deep verbal interpretation and detailed explanation of the contextualized performance management systems (Eriksson & Kovalainen, 2008). Using this approach, this study certainly has an ability to crystallize all rationales behind the performance management practices into a rich and detailed description using the multifaceted analysis (Eriksson & Kovalainen, 2008). Hence, this method is believed to be suitable for analyzing the interrelated practices in depth between performance measurement and reward systems in SME, like a dealer company (Wijewardena, Zoysa, Fonseka, & Perera, 2004). The logic of this study follows what Yin (2009) calls as pattern-matching, that is the logic of comparing the patterns from empirical data with those from predicted. We also strengthen the existing theories by identifying the gaps and trying to correct them by employing our case as a source of illustration (Siggelkow, 2007). As a consequence, we put the case discussion entwine with the theories (Eisenhardt & Graebner, 2007).

To build the within-case analysis, we begin with the activity of designing our research instruments, namely interview and mini survey questions. Dealing with the issue of triangulation, we perform a multiple-data collection to confirm the same facts we find (Yin, 2009). At the beginning of the data collection, we administer a mini survey to employees in the central office of case company. This preliminary study provides good insight about the existing systems and prevailing procedures inside the case company, which facilitates further inquiries (Eriksson & Kovalainen, 2008). Although we think that interview can be "a highly efficient way to gather rich, empirical data" (Eisenhardt & Graebner, 2007, p. 28), we still conduct a documentary study by collecting the company files and records in order to crosscheck the data from interviews. Since nature of the performed tasks of the (marketing) respondents does not allow a long-time discussion, we manage to have a small, semi-structured talk with some staffs. To be able to interview efficiently, our questions are preset to cover the entire theme of our research and get improved during the interview (Qu & Dumay, 2011).

Finally, we mainly apply qualitative data analysis to accomplish our research objectives. To favor our preliminary analysis, we use descriptive statistics to understand the mini survey results. For the qualitative data, we follow three major steps in qualitative research, namely data reduction, data display and data interpretation (Sekaran & Bougie, 2009). First, we simplify and transform the raw data obtained from field notes using coding and categorization.

Then, we decide how to display the related data and identify several key features. Finally, we combine the evidence, interpret the patterns and draw empirically based conclusions. (Sekaran & Bougie, 2009; Yin, 2009) Through these steps, our study is able to show the patterns and interrelation amongst the data, and then, to tell an interesting story about the performance management systems (Sekaran & Bougie, 2009).

### **3.2. The Profile of Dealer X**

In Pontianak<sup>1</sup>, motorbike dealers are usually SMEs that perform dealership activities in either one or several selling regions depending on the scope of operation. Their business activities can be motorbike selling, post-sales services, maintenance and repairs, motorbike spare-part trading and so forth. In Pontianak, there are some medium-sized dealers holding the dealership rights from Japanese motorbike companies, like Honda, Yamaha, Suzuki, Kawasaki, etc. Because of the trading capabilities and community trusts, these companies grow bigger and expand their operations into many regions in the province of West Kalimantan and in Java Island recently. These expansions indeed require more controlling activities to direct and ascertain the expected business goals achieved in a particular time frame.

To understand the control mechanism, especially the performance measurement and reward systems, we approach one of these medium-sized dealers. Because of the agreement of anonymity, we call this case dealer as *Dealer X*. Until the time of writing this article, Dealer X has already operated 81 and 11 branches in West Kalimantan and Java Island, respectively. Dealing with the complexity, Dealer X structures its operations into six major departments, such as marketing department, service department, general and finance department, motorbike-loan department, personnel department and legal department. All of these are headed by a manager who is accountable for their department activities and reports directly to the general manager.

In this study, we only focus on the marketing department since main company activities are about selling motorbikes. Marketing department of Dealer X is responsible for sales promotion and retail selling. The promotion activities include advertising, sales promotion and publication; whereas, the retail selling covers all activities of assigning sales people to sell motorbikes in the retail market of a particular region. To increase the sales volume, Dealer X controls and motivates its people through performance-based reward programs. By and large, these control systems are believed to be well-developed and they match with the criteria of our study. The control systems of the Dealer X, mainly the performance measurement and reward systems, will be discussed more detail in the latter two sections.

## **4. THE PERFORMANCE MEASUREMENT AND REWARD SYSTEMS**

The common intention of setting up control systems is to influence the employees' behaviors and motivate them to achieve expected organizational goals. Every company, however, has its own goals and strategies so the control systems are designed differently to cope with the specific contextual factors in that organization. Despite using complex control systems, Dealer

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<sup>1</sup> Pontianak is one of the municipality and the capital city of West Kalimantan Province in Indonesia.



X generally relies on two simple systems, which are a point-based reward system and absence management systems. A point-based reward program, which is recognized latter in this article as *performance-based reward*, is designed to control the performance of all employees. To ensure all employees are diligent enough to present in the office every working day, Dealer X also establishes one more reward program, so-called *reward for diligence*. These two reward systems are naturally different. A point-based reward program is given according to the result of performance appraisals; meanwhile, reward for diligence is merely based on the employees' presence. To sharpen the focus, the discussion of reward for diligence is excluded from this article.

Dealer X believes that employees should be intrinsically and extrinsically motivated. Satisfaction from the job itself is not enough to encourage more efforts so additional extrinsic motivator, such as performance-based reward, is required to give a combination effect. Such reward systems does not necessarily become a permanent part of base pay and are used for aligning employee interests with organization strategies (Lowry, 2002). Consistent with Lowry (2002), Dealer X distributes the reward monthly along with the basic salary and the employee benefits, and altogether forms the compensation package<sup>2</sup> for its employees.

To favor the distribution, Dealer X announces some *rules of games* of reward distribution, which can be divided into two categories, namely the reward program for sales people and for their supervisors. Because the rules of games cover the performance measures and the calculation manual for the reward systems, the management teams and employees always refer this process to the systems of performance measurement. The description and simulated calculation will be given in next subsections.

#### 4.1. Reward Program for Sales People

Financial reward (incentive) for sales people in Dealer X is determined using an arithmetic formula shown on Equation (1).

$$\text{Total Incentives} = \text{CRM Report} + (\text{Motorbikes Sold} \times \text{Points} \times \text{\% Point Counted} \times \text{Rp5000,00}) - \text{Account Charge} \quad (1)$$

Based on Equation (1), there are three components of the incentives, viz. Customer Relationship Management (CRM) Report, formulaic incentive and the account charge<sup>3</sup>. The CRM report shows the number of marketing visits done by the sales person in a month. Every sales person is required to have at least 100 visits and submits all CRM reports at the end of month. Those who have more than 100 CRM reports in particular month will rewarded

<sup>2</sup> Compensation package in Dealer X consists of the monthly salary, worker insurance, extra pay (benefit) for the *Eid ul-Fitr*, reward for diligence, and performance-based rewards. Extra pay (benefit) for *Eid ul-Fitr* is given once a year only and is intended to cover the extra expenditures of the employees during *Eid ul-Fitr*. While, reward for diligence is another type of reward for those who are present on time every working day. This extra pay is calculated and given monthly.

<sup>3</sup> Account charge is an accumulated fund from employees to cover the employee's borrowing when s/he resigns from the company. The employee can claim his/her money back if s/he resigns from Dealer X and does not have any borrowing from the company.



Rp200.000,00. Furthermore, Dealer X also encourages its sales people to be honest. The company discourages any dishonesty by applying fines (for fictitious visits) of Rp50.000,00 per customers.

The formulaic incentive is the multiplication of number of motorbikes sold, points, point worth and its markup so this incentive is significantly affected by the actual sales administered by each sales person. The collected points will vary when the different types of motorbike are sold. In Dealer X, there are eight types of motorbikes available for sale. Therefore, when they want to determine the right point for each sale, they use Table 1 as a *lookup* table.

**Table 1:** Number of Points Based on the Type of Motorbikes Sold

Types <sup>4</sup>	Points
ZS Series	10
OM Series	10
RV Series	10
VX Series	10
JM Series	12
ZC Series	14
RK Series	12
OS Series	10

Referred to Equation (1), the worth of one point of sales is Rp5.000,00. If one sales person, for example, is managed to collect 100 point, s/he will be rewarded as much as Rp500.000,00. To determine the eligibility of reward recipients, Dealer X assign *% counted point* into the incentive formula to differentiate the good performers from the average ones. Sales person who is able to sell three to five units of motorbike is deserve to get 100% counted point. It means that all collected points are counted and this sales person obtains some financial rewards according to these points. In contrast, the person who is not able to sell three units of motorbike during the measurement period will have his/her points dismissed because s/he does not achieve the target.

For good performers, they will also get additional points through the percentage of counted point as regulated by the company. The sales people who are managed to sell six to nine units and more than ten units of motorbike will be given 120% and 150% of counted points, respectively, as an additional appreciation toward their above average performance. This also shows the company commitment of 'the right reward for the right performers'. Finally, Dealer X charges its employees with the account charge of Rp25.000,00 for those who have already sold three units of motorbike in the measurement period.

To illustrate the calculation of total incentives for sales people, let assume that Tony is a sales person in Dealer X. He sold 6 units of motorbike during the measurement period (October).

<sup>4</sup> Types of motorbike are disguised in order to hide the identity of Dealer X.

The motorbikes sold were recorded as follow: 2 units of RV series, 1 unit of OS series and 3 units of JM series. At the end of October, he submitted 105 reports of marketing visits and all reports were real. Total incentives given to Tony can be calculated as follow:

Total point obtained:

RV Series:	2 unit	x 10 point	= 20 point
OS Series:	1 unit	x 10 point	= 10 point
JM Series:	3 unit	x 12 point	= 36 point
<b>Total point</b>			<b>= 66 point</b>

Based on the obtained points, Tony received the formulaic incentive of:

$$\begin{aligned}
 \text{Formulaic Incentives} &= \text{Total Points} \times \% \text{ Point Counted} \times \text{Rp}5.000,00 \\
 &= 66 \text{ point} \times 120\% \times \text{Rp}5.000,00 \\
 &= \text{Rp}396.000,00
 \end{aligned}$$

Thus, total amounts of incentives received by Tony were:

$$\begin{aligned}
 \text{Total incentives} &= \text{CRM reports} + \text{Formulaic Incentives} - \text{Account charge} \\
 &= \text{Rp}200.000,00 + \text{Rp}396.000,00 - \text{Rp}25.000,00 \\
 &= \text{Rp}571.000,00
 \end{aligned}$$

#### 4.2. Reward Program for Supervisors

Sales supervisors in Dealer X are rewarded for their achievements in supervisory activities and the sales team performance. Dealer X thinks that good supervisor is the one who can supervise his/her team and motivate the team members to market more motorbikes so the supervisor's reward is set against total sales performance of the supervised team. Amount of sales incentives obtained by sales supervisors can be seen in Table 2.

In terms of supervisory activities, Dealer X really concerns about the quality of interpersonal relationship and the marketing visits. Supervisors also get additional rewards when the team visits in form of CRM reports are more than 100 visits monthly. S/he is rewarded Rp300.000,00

**Table 2:** Sales Incentives for Supervisors

Motorbikes Sold	Incentives
1. < 20 units	-
2. 20 – 22 units	Rp550.000,00
3. 23 – 24 units	Rp650.000,00
4. 25 – 29 units	Rp750.000,00
5. 40 – 49 units	Rp850.000,00
6. > 50 units	Rp950.000,00

for this achievement. Despite of the success and reward, the decreasing number of sales people in the given team is a fault of supervisors. As a consequence, sales supervisor will be fined Rp50.000,00 at the end of the month if the number of his/her team members decrease to 3 – 4 people only. The fine will be added up to Rp100.000,00 if the supervised team only consists of 1 – 2 sales people. Finally, when there is no sales person left in the team, the supervisor is automatically demoted to be sales person and joins one of the existing sales teams.

## 5. SATISFACTION OF THE EXISTING SYSTEMS

Sophisticated and complex systems do not always fit into the operation of small and medium firms. Prior research, e.g. Wijewardena et al. (2004), suggests that more sophisticated controls can lead to higher firm performance but we do not find such a link in this case study. In fact, simple control systems find the way to be situational effective in medium-sized company, like Dealer X, because of the company specific factors and conditions, such as the external environments, organization structure and strategy (Chenhall, 2003). Thus, the SME managers should also have some extents of flexibility to choose the right controls (Chapman, 1999).

Although control systems in Dealer X are somewhat simple, most employees feel satisfied with the systems and resist changes in the systems. One of the sales people comments:

*“No need [to change]. Up till now, our company [performance measurement] systems have been working so well.”*

This reaction is, indeed, predictable for some reasons. First, the existing systems are informational and easy to understand. They use sales figure as the only indicator of performance. Perhaps the reward practitioners and researchers will argue that it will put the company in jeopardy because of the lack of performance dimensions. The existing systems, however, reduce the complexity of performance measurement and rewarding process into the level where the employees whose educational background equivalent to the senior high school graduates can understand very well. Second, the main business of Dealer X is dealership so it does not necessarily employed high qualification marketing staffs to do the selling activities. Hence, most of the employees only complete senior high school. Finally, the formula of rewarding systems is easy to calculate. Sales people and their supervisor can count their reward points easily without using sophisticated medium, like computer.

Furthermore, some reveals that they are pleased to work in Dealer X because of the reward system as well as the friendly relationship with other employees. Having such systems operate in the company, people are being motivated to work harder to achieve good performance and obtain their expected rewards. They also become more competitive and more enthusiastic at work.

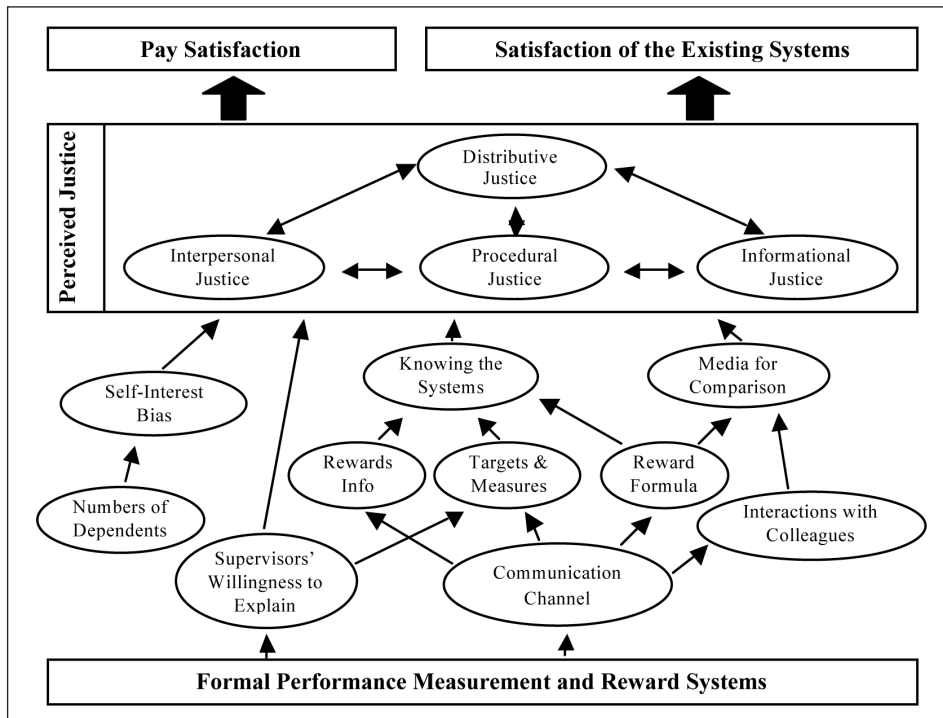
When we ask about what makes them feel satisfied, they mention some aspects, which are depicted in Figure 2. These aspects obviously shape the perceptions of justice and, in turn, encourage the pay satisfaction, satisfaction of the existing systems and finally increase the performance of the dealer.

### 5.1. Procedural Justice

Ideally, the reason of giving rewards to the employees is that they have accomplished their task and shown better performance. This intention obviously creates a clear linkage between actual performance and the given reward. It also set the notion in mind that what they do gets rewarded. Therefore, a good reward system is the result of the company having effective performance measurement system (Ferreira & Otley, 2009). To be successful, system designers need to select some critical measures, decide how to use these measures objectively and explain them effectively to the employees (Lawler, 1989). Generally speaking, the company is setting up formal performance measurement and reward systems (Hartmann & Slapnicar, 2009, 2012).

The existence of performance measurement systems shows the evidence that the organization concerns about the systematically fair working environment (Ducharme et al., 2005). Furthermore, Ducharme et al. (2005, p. 51) emphasize that “the compensation process may be more important to employees than the compensation itself,” because the formal use of performance measurement systems creates objectivity, accuracy, consistency and completeness of the information for rewarding, in turn, imparts the perceptions of procedural justice (Hartmann & Slapnicar, 2009; Lau & Moser, 2008). Therefore, individuals who receive rewards based on performance measurement possess more pay satisfaction (Ducharme et al., 2005).

**Figure 2:** Satisfaction of Pay and Existing Systems: Factors and Possible Links



A rewarding process is considered to be fair procedurally when there is justice in the process of designing and administering the employee rewards (Cole & Flint, 2005). In the case of Dealer X performance, sales figure is the most important target, so the sales people are simply directed to sell more motorbikes from the central office and branch dealers. (See Table 1 and 2) In other words, the performance indicator is the number of the motorbike sold and the sales people will be rewarded accordingly based on this measure.

Because the existing performance measurement system is simple, sales people and their supervisor can easily track their performance using the preset formula. They can also calculate how much financial rewards they probably earn. In other words, they are familiar with the process, track the process and know what the final decision is. They are treated fair procedurally and one of them says:

*“Our system is really accurate. Its process is based on company rules and our [reward] agreement.”*

This excerpt shows high appreciation and trust of the employee toward the performance measurement and reward systems. According to Hartmann and Slapnicar (2009), when the company applies more formal systems, it will enhance trust of the employees. It is consistent with the action of Dealer X that let its employees learn and understand how to measure their performance and decide their own rewards. Because the output of the system is similar to what they count, that is why they say ‘accurate’. To sum up, formality of the systems, makes the employees know the systems well, appreciate the accuracy of the system, and then, it makes them feel fair. It is also consistent with Chen and Fu (2011) and the expectancy theory.

## **5.2. Informational Justice**

Sales people in Dealer X perceive procedural justice because of formality of the systems, as described in the previous section. Therefore, it creates credibility of the systems. People exactly know what the measure is, how to use that measurement systems and what the final outcome of the measurement will be. Undeniably, it is the results of having a good internal communication in Dealer X.

At pre-employment stage, all employees are informed about their total compensation packages and trained to calculate their rewards (incentives). Thereby, they can make their own records of achievement and predict their monthly financial rewards. This communication and training process have already explicated the *distribution rules* – a set of clear procedures of how rewards to be allocated accurately and consistently” (Belcher, 1979; Hartmann & Slapnicar, 2009). Thus, they also perceive informational justice because Dealer X provides right information about the procedures used in the measurement processes and the correct amount of the rewards to the right employees. (See Chen and Fu (2011) and Colquitt et al. (2001))

Moreover, the reward communication and informational justice can influence the organization effectiveness and performance, pay satisfaction and employee motivation (Shields, Scott,

Sperling, & Higgins, 2009). To sum up, the perception of informational justice and reward communication are also the leading factors of the employee satisfaction and acceptance of the performance measurement and reward systems in Dealer X.

### 5.3. *Distributive Justice*

Distributive justice usually relates to the feeling of justice of the outcome where one's relative performance and contribution can be compared with others' using input-output ratio (Chen & Fu, 2011; Terpstra & Honoree, 2003). When we examine the employee satisfaction carefully, few sales people feel marginally satisfied with the total compensation packages in Dealer X, while the majority is satisfied. This indicates that there is a problem with the distribution of pay, especially the reward allocations. Consequently, when we ask them to rate their satisfaction of the performance measurement and reward systems, they still mention *marginally satisfied*.

To understand the story behind this phenomenon, we are applying three principles of distributive justice to set the framework for analysis, namely equity, equality and needs (Cropanzano et al., 2007). Based on equity principle, people continuously monitors their inputs on job based on the comparison of their performance contributions relatively to the relevant standards<sup>5</sup>, such as comparison to others' performance, self comparisons and system comparisons (Belcher, 1979; Romanoff, Boehm, & Benson, 1986; Terpstra & Honoree, 2003). Belcher (1979) also acknowledges that one comparison standard may be more preferable for some individuals than others because of the accessibility and the level of importance of that standard.

Dealer X implicitly encourages its sales people to evaluate their performances using the system comparison. Amongst three relevant standards, only system comparison does the company make it available through its internal systems. Dealer X does establish clear *distribution rules* and communicate effectively to all members. Having such relevant information available to use, sales people have more opportunities to compare the given reward to the distribution rules. In addition, sales people can also get other comparison results based on other standards, like others' performance and self comparison. In so doing, Dealer X actually guarantees the equity of reward distribution for all members.

In terms of needs, self-interest bias<sup>6</sup> usually affects the perception of distributive justice (Cole & Flint, 2005). Although sales people in Dealer X have the same opportunities to attain their targets and are allowed to use the company facilities in an equal basis, some staffs still feel less happy with the given reward because of the different financial needs. When we asked about the sufficiency of the compensation package, the sales person responds:

*"[It is] not enough. I have many dependents."*

<sup>5</sup> Relevant standards of comparison, in this article, are derived from "Goodman's model of social comparison process" (Belcher, 1979, p. 35). There are three comparison standards are suggested, namely comparison to others, self comparison and systems comparison. Comparison to others can be done by comparing one's performance against others' in the same or different companies. Self comparisons mean comparison against one's past performance or against one's feeling of confidence (that s/he is worthy rewarded). Finally, system comparisons refer to the comparison of one's performance against the organization standards of rewarding.

<sup>6</sup> It means that "individuals are more likely to perceive fairness in distributive rules that favor their own circumstances or level of entitlement" (Cole & Flint, 2005, p. 56).

Thus, the employees with high household costs, for example, those who have big family or still look after their old parents, admit that the compensation package is not enough to cover all family expenditures. They are more likely to be unhappy with their pay and occasionally ask for a raise because they feel unjust. Sales people with fewer or no dependent can enjoy more money for their self-fulfillments than those who have more dependents. As a consequence, the sales people with many dependents perceive distributive unjust because of the self-interest bias.

#### **5.4. Interpersonal Justice**

When talking about distributing rewards, we cannot divide the feeling of justice from the aspect of leader treatment and attitudes, such as good manner, fair treatment, respectfulness and appropriateness (Colquitt, 2001). Hence, the treatments and attitudes during the whole performance measurement process can be a matter of justice because the interaction between leader and subordinates triggers the feeling of justice or injustice. In other words, interpersonal justice relates to how the leader *treats* subordinates fairly during the managerial processes (Chen & Fu, 2011).

Despite of good distribution rules, the performance targets are still an important component in reward determination. Based on the sales people perspectives, the given targets are acceptable and normal because they exactly know why their supervisors set those targets and agree to work hard for the best performance of their team. As shown in Table 2, sales supervisors are given particular responsibility to motivate the sales people in their group to sell specified numbers of motorbike and their performance and reward are also measured according to this achievement. Therefore, the sales supervisors are always ready to give support and help to achieve their group target.

In so doing, all sales people in a group feel a fair treatment from their supervisor because they are being informed about the decision and the rationales of the decision without considering the additional workload as an abuse and extortion (Avery et al., 2010; Simons & Roberson, 2003). There is no surprise that we ask about their friendships; all workers mention the same phrase: “friendly relationship”. Finally, we can conclude that good and intense communication is likely to impart interpersonal justice and trust among the people.

### **6. CONCLUSION**

When we establish control systems, especially performance measurement and reward systems, we need to ensure that such systems will be able to increase the satisfaction and extrinsic motivation of the employees while attaining the intended goals of organization. The case study shows that performance measurement and reward systems, regardless its complexity and sophistication, can operate effectively and be accepted very well by the members of organization when the members exactly know the metrics, the measurement process and the outcomes. Therefore, they begin setting their own expectancy, know the probability, value the outcome, put effort, and finally obtain satisfaction. Thus, the case findings provide supports for previous researches, viz. Burney et al. (2009) and Chen and Fu (2011), and also prove



that expectancy theory does explain the phenomenon of high satisfaction perceived by the individuals who receive reward related to the output of performance measurement.

Examining the pay satisfaction more closely, we find that the linkage between performance measurement and reward systems is one of the key factors. Formality and well communication makes the people fully understand about the process and outcomes of the company systems and they become certain that they can easily track their performances and get the expected rewards. This evokes the experience of procedural justice and informational justice. Because the company has already established a good communication channel, the case study shows that the employees have a chance to compare the obtained rewards with the others, self-expectation and the preset distribution rules. In so doing, the employees will perceive distributive justice. Moreover, the interpersonal justice appeared from the intense communication and interaction with supervisors and colleagues can also be the cause of pay satisfaction. Finally, because of self-interest bias, employees value distributive justice more than other dimensions of justice, therefore, the company policies that favor the distributive justice must be given a priority.

Using this case study, we actually want to extend the understanding of the operation of control systems which is a crucial part of strategy execution. The case study demonstrates how the linkage between performance measurement and rewards combined with the dimensions of perceived justice can exactly do more to increase employees' satisfaction. Therefore, this study produces a scientific picture and it can be a valuable model for decision making.

In the process of understanding the contexts and the control systems itself, we realize, however, that overall control processes is too wide to be captured in a single case study. What we can do in this research is to examine the existing systems using the approach given in expectancy theory and the justice literatures where it limits us from knowing more comprehensive stories about control processes from other perspectives. Hence, more case studies with various research settings and theoretical frameworks are needed to understand the organizational control topics, especially the control mechanism in SMEs, from many viewpoints.

Additionally, it is crucial to acknowledge that our research only focuses on the performance measurement and reward systems of marketing department so another research taken from other divisions or departments in the motorbike dealer probably give another look of the control systems and altogether may give more comprehensive story. Finally, future researches using multiple case studies and longitudinal studies are also useful to know how various control practices are developed in SMEs and also extend our understanding about the contextual factors that shape the control system itself.

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