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Effect of pay for performance on identifications in an organization: the role of employees' self-concept orientation

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Summary:

The present study quantitatively verifies the relationship between pay for performance system and relational/organizational identification from an identity perspective. This study adopted the self-concept orientation borrowed from studies on social psychology and focused particularly on the moderating/strengthening effect of three levels of self-concept orientation (individual, relational, collective). The study considers the impact of each orientation on the relation of pay for performance plan and identifications in an organization.

Keywords:

identity, self-concept orientation, relational identification, organizational orientation, pay for performance

Introduction

Statistical surveys by the Japanese Ministry of Health, Labor and Welfare have revealed that the introduction of pay for performance systems in Japan increased from the late 1990s to early 2000s. Ogihara (2017) has also analyzed the temporal changes in pay for performance systems and clarified quantitatively that seniority systems have declined and pay for performance plans have increased in Japan over the past two decades (1991~2016) because several practitioners and academicians have discussed the fact that Japanese management practices, characterized by lifetime commitment and seniority system, have led to economic collapse and corporate stagnation.

Conversely, some scholars claimed that the pay for performance system is shifting to the team- or group-based systems, mainly because the monetary wage system based on individual performance has reduced employee loyalty and the sense of belonging to the organization (Wakabayasi, Yamaoka, Matsuyama and Honma, 2006).

In the past few years, there has been ongoing discussion on the topic of the sense of belonging and loyalty to the organization along with the concept of organizational identification. However, few extant research focus on the relationship between pay for performance system and identification phenomenon such as relational and organizational identification in an organization.

Therefore, this study quantitatively examines the relationship between pay for performance system and relational/organizational identification from an identity perspective, particularly considering the moderating or strengthening effect of three self-concept orientation levels (individual, relational, collective) on their relationship.

Theoretical hypotheses

Pay for performance system that determines compensation based on an individual's performance is often considered an organizational control method as it motivates employees to improve job performance by controlling their behaviors, outputs, or both (Oliver & Anderson, 1995).

Self-concept orientation refers to the process of establishing one's identity and the associating one's self with others and groups in the social context (Brewer & Gardner 1996; Brickson 2000, 2005; Brickson & Brewer 2001; Cooper & Thatcher 2010). Two features mark this concept: First is that there are not previous two types of self and others orientation but three types of personal, relational, and collective orientations. The second feature is the motivation and target of identification are different from each identity orientation.

Relational identification refers to an individual who may identify with a person in a

specific interpersonal relation that is not identified with any social group (Sluss & Ashforth, 2007, 2008; Sluss et al., 2012; Stets & Burke, 2000; Stryker & Burk, 2000). *Organizational identification* refers to the feeling of oneness and belonging to the organization, the perception of membership (Ashforth & Mael, 1989; Mael & Ashforth, 1992), and the organizational reflecting “who we are,” evident in the self-concept or self-definition of the individual (Albert et al., 2000; Rousseau, 1998; Sluss & Ashforth, 2007).

Hypothesis 1: *Pay for performance will have a significantly negative effect on relational and organizational identification.*

Hypothesis 2: *Self-concept orientation will moderate or strengthen the effect of pay for performance on relational/organizational identification.*

Hypothesis 2a: *For an employee with strong individual self-concept orientation, the effect of pay for performance on relational/organizational identification will weaken.*

Hypothesis 2b: *For an employee with strong relational self-concept orientation, the effect of pay for performance on relational/organizational identification will strengthen.*

Hypothesis 2c: *For an employee with strong collective self-concept orientation, the effect of pay for performance on relational/organizational identification will strengthen.*

Methods

Data and sample

A survey included permanent employees working in five Japanese industries in July 2017 (N = 1,060). Respondents were selected based on gender, age, industry, company size, and employment pattern in accordance with the 2016 Labor Force Survey (LFS) conducted by Japan’s Ministry of Internal Affairs and the Communications Statistics Bureau.

The five Japanese industries included over half of the 61.6 million persons and excluded agriculture. Information and software industry categorized as “other” in the LFS was included. The data frequency for the industries was as follows: manufacturing, 452 (42.6%); distribution (retail and wholesale), 107 (10.1%); service 100 (9.4%); medical and welfare, 183 (17.3%); construction, 75 (7.1%); and information and software, 143 (13.5%). The respondents were 714 males (67.4%) and 346 females (32.6%) of mean age 39.04 years (*S.D.* = 9.5). All the items were measured on a seven-point Likert scale

(1, strongly disagree; 7, strongly agree).

Measures

Pay for performance. The scale for pay for performance system was developed based on studies by Deckop, Mangel and Cirka (1999) and Brickson (2000). Four items were used in the data analyses. The sample items are as follows: “My individual performance actually has little impact on any incentive pay award” (reverse-coded) and “My performance has a strong impact on my salary.” Cronbach's coefficient alpha was found to be $\alpha = .85$.

Self-concept orientations. Personal, relational, and collective self-concept orientations were adopted for the self-concept scale of Johnson et al. (2006). They developed a measurement based on a study by Brewer and Gardner (1996). For each self-concept orientation, four items were selected based on the factor analysis results (12 items). The sample items for self-concept orientation are as follows: “I thrive on opportunities to demonstrate that my abilities or talents are better than those of other people” for personal, “It is important to me that I uphold my commitments to significant people in my life” for relational, and “I feel great pride when my team or group does well, even if I am not the main reason for its success” for collective.

Cronbach's coefficient alpha, respectively, for personal, relational, and collective self-concept orientation was shown to be $\alpha = .80$, $\alpha = .87$, and $\alpha = .81$.

Identification in organization. Four items were adapted from Sluss, Ployhart, Cobb, and Ashforth (2012) to measure the relational identification. Thus, “supervisor” was changed to “supervisor and colleague.” Five items from the well-known organizational identification scale by Mael and Ashforth (1992) were used. The sample items are as follows: “My relationships with my immediate supervisor and my colleagues are vital to the kind of person I am at work” and “My relationships with my immediate supervisor and my colleagues are important to my self-image at work” for relational identification and “When someone criticizes my workplace, it feels like a personal insult” and “My workplace’s successes are my successes” for organizational identification.

Cronbach's coefficient alpha was found to be $\alpha = .83$ for relational identification and $\alpha = .83$ for organizational identification. Therefore, all of the measures used in this study have sufficient reliability and validity. Table 1 shows the correlation coefficients matrix for all variables.

(Insert Table 1 about here)

Results

Study 1: Comparative confirmatory factor analyses (CFA)

Before testing the study hypotheses, three comparative models were developed and comparative confirmatory factor analyses was made to verify discriminant validity the data included both dependent and independent variables from the same source. The six-factor model included all the variables used in the study analysis and was compared with the one-factor and the three-factor models.

The one-factor model was composed of pay for performance, three self-concept orientation, relational, and organizational identification as one variable. The three-factor model grouped all the variables into pay for performance (independent variable), self-concept orientation (moderator variables), and identification in an organization (dependent variables).

According to the CFA results, the six-factor model, which measured pay for performance; personal, relational, and collective self-concept orientation; and relational and organizational identification showed the best fit with our data compared with the one-factor and the three-factor model (Table 2).

(Insert Table 2 about here)

Study 2: Hierarchical regression analyses

The hypotheses were tested through hierarchical regression analysis by using the relational and organizational identification as the dependent variables (Tables 3 and 4). The values of Durbin-Watson and VIF confirmed the multicollinearity.

First, the direct effect of pay for performance on relational identification was not identified (Table 3, Models 2–4). Second, organizational identification is positively influenced by pay for performance (Table 4, Models 2–3). Therefore, hypothesis 1 is rejected.

Finally, pay for performance and individual self-concept orientation, pay for performance and relational orientation (Table 3, Model 4), and pay for performance and relational self-concept orientation (Table 4, Model 3) were significant in these regression models. However, since all these results contradict our assumption, hypothesis 2 is also rejected.

(Insert Tables 3 and 4 about here)

Conclusion

Although the study hypotheses are not supported, it is assumed that this study has theoretical implications for considering organizational and individual antecedents of identification in an organization.

Moreover, the other organizational factors are examined using self-concept orientation toward developing an integrated model because employees' identity perspective has not been examined fully.

Similar to Hofstede's survey, Japan is well known for its strong collectivism; however, institutions that are recognizing individualistic logic such as pay for performance focused on the role of individual employee are growing. Therefore, this study claims that identification as well as organizational commitment and citizen behavior may be reduced. Thus, under extreme conditions, collaboration and coordination and, in turn, sustainability may be hindered. Therefore, it is important to understand the influence of people with self-identity while being protected by collectivist culture and also the existing scenario. Hence, research must also consider cultural differences between countries and generations.

Finally, in the BAM2019 DP session, we welcome advice and ideas from the participants to extend the scope of this study and discuss how the theoretical hypotheses can be refined further.

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Tables

Table 1. Correlations matrix for the all variables

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|----|----|----|
| 1. Gender | | | | | | | | | | | | |
| 2. Age | | | | | | | | | | | | |
| 3. Service years | | | | | | | | | | | | |
| 4. Occupations | | | | | | | | | | | | |
| 5. Industry | | | | | | | | | | | | |
| 6. Size | | | | | | | | | | | | |
| 7. Pay for performance | | | | | | | | | | | | |
| 8. Individual self-concept orientation | | | | | | | | | | | | |
| 9. Relational self-concept orientation | | | | | | | | | | | | |
| 10. Collective self-concept orientation | | | | | | | | | | | | |
| 11. Relational identification | | | | | | | | | | | | |
| 12. Organizational identification | | | | | | | | | | | | |

n=1,060. Alpha reliabilities are in italic on the matrix.

* $p < .05$, ** $p < .01$

Table 2. The results of comparative confirmatory factor analyses

| Structure | χ^2 | df | χ^2/df | $\Delta\chi^2 p^a$ | CFI | NFI | IFI | RMSEA | AIC |
|--------------|----------|-----|-------------|--------------------|-----|-----|-----|-------|---------|
| One-factor | 7589.27 | 275 | 27.59 | $p < .001$ | .42 | .41 | .42 | .15 | 7689.27 |
| Three-factor | 3992.94 | 272 | 14.68 | $p < .001$ | .70 | .69 | .70 | .11 | 4098.94 |
| Six-factor | 1285.82 | 260 | 4.94 | $p < .001$ | .92 | .90 | .92 | .06 | 1415.82 |

Table 3.

| Variables | Relational Identification | | | |
|--------------------------------------|---------------------------|---------|--------|--------|
| | Model 1 | Model 2 | Model3 | Model4 |
| Age | .08* | .08* | .05 | .04 |
| Gender | -.00 | -.00 | .00 | .00 |
| Service years | -.01 | -.01 | -.02 | -.03 |
| Occupations | -.01 | -.01 | -.00 | -.01 |
| Industry | -.00 | -.00 | -.00 | -.00 |
| Size | .05 | .05 | .02 | .01 |
| Pay for performance | | .00 | -.01 | .04 |
| Individual self-concept orientation | | | .10** | .09** |
| Relational self-concept orientation | | | .09* | .09* |
| Collective self-concept orientation | | | .30** | .29** |
| Pay for performance × Individual SCO | | | | .10** |
| Pay for performance × Relational SCO | | | | -.16** |
| Pay for performance × Collective SCO | | | | .04 |
| R^2 | .00 | .00 | .18** | .19** |
| ΔR^2 | .00 | .00 | .17** | .02** |

Reported values are standardized regression coefficients.

* $p < .05$, ** $p < .01$

Table 4.

| Variables | Organizational Identification | | | |
|--------------------------------------|-------------------------------|---------|--------|--------|
| | Model 1 | Model 2 | Model3 | Model4 |
| Age | -.04 | -.02 | -.00 | -.00 |
| Gender | -.00 | -.00 | .02 | .01 |
| Service years | .00 | .00 | -.00 | -.00 |
| Occupations | -.01 | -.01 | -.00 | -.01 |
| Industry | -.05 | -.04 | -.04 | -.04 |
| Size | .07* | .07* | .03 | .02 |
| Pay for performance | | .12** | .06* | .11** |
| Individual self-concept orientation | | | .30** | .29** |
| Relational self-concept orientation | | | -.11** | -.11** |
| Collective self-concept orientation | | | .29** | .27** |
| Pay for performance × Individual SCO | | | | .05 |
| Pay for performance × Relational SCO | | | | -.11** |
| Pay for performance × Collective SCO | | | | -.04 |
| R^2 | .00* | .02** | .21** | .22** |
| ΔR^2 | .01* | .01** | .18** | .01** |

Reported values are standardized regression coefficients.

* $p < .05$, ** $p < .01$