Does Pay Account For Employee Performance And Intention To Stay?
The moderating effects of leadership and justice

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Abstract

Most organization globally assume a positive relation between pay and employee behaviors, such as performance and intention to stay in an organization. The here presented study analyzed the moderating effects of distributive justice, procedural justice, and transformational leadership on the association of pay level and pay raise with employee performance and/or intention to stay. Questionnaire data of 255 white-collar workers in a large organization was obtained. Pay level and pay raise were generally unrelated to the outcomes. Distributive justice was positively related to intention to stay but unrelated to job performance. Procedural justice and transformational leadership were positively related to both intention to stay and job performance. The results generally provide no support for the notion that justice and leadership moderate the association between pay and employee outcomes, as only one of twelve tested interaction terms were significant. However, transformational leadership moderated the association between pay level and job performance, so that a higher pay level was associated with better performance under the condition of high transformational leadership. The results are similar to recent meta-analytic findings.

Keywords: pay, leadership, performance, justice, intention to stay
1 Introduction

Most organizations assume a positive relationship between pay and employee behaviors. Pay is expected to improve, amongst other, motivation and performance, as well as it is supposed to be a helpful mean of attracting and retaining talent in an organization. Current research supports such assumptions (for a meta-analytic review see: Judge, Piccolo, Podsakoff, Shaw & Rich, 2010; Kanter, 1987). Links of pay to certain employee related outcomes have been investigated for over four decades, and they are still of interest today. On the whole, motivational aspects of pay are well founded; however, there remains an open debate on high pay leading to high employee satisfaction. Until today, high pay level has only been found to be marginally related to job satisfaction as well as to pay satisfaction. These investigations included both direct as well as moderated models concerning the mentioned relation (for a meta-analytic review see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014). Furthermore, research literature on compensation provides evidence that pay affects the relationship an employee has with their organization independently of how it is handed out amongst all employees (Gerhart & Milkovich, 1992; Heneman, 1992; Lawler & Jenkins, 1992; Opsahl & Dunnette, 1966; for a meta-analytic review see: Cohen-Charash & Spector, 2001). What is more, findings provide evidence of that perceived justice by employees plays a role in connection to pay and other aspects, such as job satisfaction, organizational commitment, heightened performance and intention to stay (Colquitt, Conlon, Wesson, Porter & Ng, 2001; Maaniemi, 2013; Viswesvaran & Ones, 2002).

In accordance with the before mentioned, individualized performance based pay has become a global trend that is becoming more and more frequent in most industrialized countries, as it is perceived to be a fair remuneration system (Salimäki & Heneman, 2008). In detail, individualized performance based pay refers to variable performance contingent pay (Gardner, Dzne & Pierce, 2004), while merit pay refers to transactional content, which is a unique form of money transaction over a recurring period of time (Yhao, Wazne, Glikbowski & Bravo, 2007). Both of which have in common that they resort to specific, pre-set criteria after which an employee’s pay raise will be determined. Such a formal pay system in an organization is usually based on clear-cut pay criteria, on systematic performance appraisals, and on the judgment of an employee’s pay-setting supervisor, with whom the pay-setting is negotiated. What is more, it is important to distinguish here that an employee’s evaluation is discussed at a so called performance review, whereas the formal pay raise setting discussion in relation to performance is held between the corresponding pay-setting supervisor and the employee during the pay-setting meeting (Milliman, Nason, Zhu & De Cieri, 2002; Pfeffer,
In the context of this paper pay raise setting will exclusively refer to the below described process of individualized performance based pay raise setting in the sense of pay raises. Pay will not be a reference for other forms of individualized pay, such as initial entry pays, incentives, stock options, bonuses or likewise.

Another point of concern is that the real cost-benefit of the connection of individualized pay-setting and pay level with employee performance and intention to stay have been questioned and critiqued (Pink, 2009; Kohn, 1999). This is why more empirical data on the moderating factors of the association of pay for desired employee outcomes shall help to enlighten about whether individualized performance based pay-setting and/or pay level are significant in relation to employee performance and retention. In addition, the significance of possible effects of transformational leadership, procedural justice, and distributive justice as moderators will be scrutinized. The importance of studying these possible moderating effects lies therein that individualized performance based pay-settings and pay level are connected more and more habitually in large private organizations worldwide with employee behaviors such as performance and intention to stay. While there appears to be plenty sound empirical evidence for such assumptions that monetary incentives are not harmful, and at best, with the right constellation of variables in place, even promote positive employee outcomes (Fang & Gerhart, 2012; Gerhart & Fang, 2014, for meta-analytic reviews see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014; Garbers & Konradt, 2014), there also persist authors on the contrary (Pink, 2009; Kohn, 1999).

Hence, the current study will address this gap and contribute to the contemporary pay literature by investigating one more of such possible pay / employee outcome constellations. The final aim of this study is to examine the moderating effects of distributive justice, procedural justice, and transformational leadership on the association of either pay level or pay raise on employee performance and/or intention to stay, as well as the relation of the moderating variables and the outcome variables (see Figure 1).
Figure 1. Model of how the three moderators, distributive justice, procedural justice and transformational leadership, are associated with the relationship of either pay raise for performance raise or pay level, and performance or intention to stay.
2 Theory

2.1. Individualized pay and pay level

Pay level has been found to affect employee self-esteem, which in turn affects employee performance (Gardner, Dyne & Pierce, 2004). Still, it has been lamented repeatedly that, up to this date, little research has been done on the effects of pay characteristic on employees (Gerhart & Milkovich, 1992; Pfeffer, 1998; Rynes & Gerhart, 2000). A key characteristic of pay is, for instance, pay level. Pay level is the total amount of direct compensation an employee is given for their work. On the other hand, there is in general sumptuous research on effects of pay on employee attitudes and behaviors in regard to the administering of pay, including theories of reinforcement and expectancy. These researchers reason that employee performance and retention improves when past high performance has been reinforced repeatedly through pay raises (for a meta-analytic review see: Jenkins, Mitra, Gupta & Shaw, 1998; Lawler & Jenkins, 1992). Nonetheless, it remains an open question whether pay level, independently of pay raise percentage, affects successive employee performance and retention.

Another characteristic of pay is pay raise. Nowadays, pay raises oftentimes have a performance related part to them. This performance related part is particularly meant to serve in retaining high performing employees, who are more common in today's flatter organizational hierarchies. The ability of an organization to retain employees is of the utmost importance as it has direct effects on the quantity of available employees to perform tasks, and on the quality of these employees (i.e. experience, education, etc.). Organizations are continuously competing with each other on the fast changing global market, which is why they strive to improve their effectiveness. One way of staying competitive is through attracting and maintaining not only any kind of employees but high potential-performing employees. Consequently, it is of key importance for an organization to succeed at attracting and retaining this human capital. Having skillful employees thus contributes to an organization's capacity to stay competitive in the long run. What is more, organizations need their employees to be motivated and committed, in a way that they continuously improve their performance through creativity, innovativeness, and learning.

One possibility of highlighting, recompensing and motivating an employee for their noted performance improvement throughout the past performance valuation cycle is a promotion. In connection to this, it has been found that while an average within-category pay for performance raise is roughly around 3%, a pay for performance raise due to a promotion av-
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erages around 8% (WorldatWork, 2010). High performance is thus supposed to result in comparatively large annual merit increases on the long run as an employee scales the career ladder, and the promotion payoff to higher merits is larger. This is one example of how organizations intend to motivate and to naturally sort employees (Gerhart & Fang, 2014). The mechanism of sorting employees comes in handy particularly when taking into account that many organizations nowadays struggle with retaining high performing employees and with letting go underperformers as it promotes a natural fluctuation (Mitchell, Holtom & Lee, 2001).

Another point of concern that needs to be taken into account is that it has been observed that young talents (above all the Millennia and Z generations) are more inclined to mobility and are less restrained to certain geographical locations as globalization is doing away with physical barriers as well as barriers such as lack of language knowledge (Bräuninger, Majowski & Mayer, 2011). Most large private organizations try to benefit from this and even employ an executive search specialist or a full-time HR talent management & people attraction team for high potential recruiting and retention topics (Christensen Hughes & Rog, 2008). Hugh amounts of money are invested in this field of concern, which is why the question that is of burning interest to organizations is: What influences an employee’s intention to stay or to leave an organization on the short as well as on the long run? Could pay be the answer?

Despite the many positive expectations, pay raise for performance could possibly also have drawbacks as it is very difficult to design objective and fair performance measurements that emphasize both individual as well as team efforts. This is why, in general, organizations use specific criteria in order to classify individualized performance based pay raises. These criteria may include, but are not restricted to: competence/experience, responsibility/complexity, current market, and job performance. Of these, performance is a behavior that is associated with accomplishing expected, specified, and/or formal role requirements (Campbell, 1990). Recompensing employees depending on performance is commonly referred to as pay raise for performance in today’s literature. Thereby monetary rewards are given through an organization’s compensation system which bases pay raise on measured employee performance within the control of all employees (Durham & Bartol, 2000). Included in an organization’s individualized pay raise setting system are usually also organizational justice aspects, such as procedural and distributive justice. This is because the justice perceptions of an employee can play an important role about how an employee recognizes the pay process regarding, for instance, the monetary distribution among colleagues, or how
transparent processes are in themselves (for more on procedural and distributive justice see below). A grand variety of different employee remuneration plans qualify as pay raise for performance systems. The main difference in these systems, though, is usually only the degree of how closely pay is tied to performance. Two main mechanisms are involved in pay raise for performance in relation to organizational success. First, a positive influence on the motivation of an employee to perform well; and, second, an impact on an organization’s attraction and retention ability of employees (Durham & Bartol, 2000). Therefore, the functional idea behind implementing a pay raise for performance system in an organization is that employees are expected to exhibit better performance. In consequence, organizations are anticipated to be more effective and successful. When, furthermore, taking sorting effects into account, it has been reasoned by Gerhart and Fang (2014) that while pay may not be the exclusive motivator for positive employee outcomes in relation to an organization, the success of pay for performance based pay raise is deemed to depend both on the design and execution of the strategy.

2.2. Pay in Sweden

Pay raise for performance is a repeatedly appearing global tendency in most industrialized countries (Gerhart & Fang, 2014; Salimäki & Heneman, 2008). Still, pay raise for performance systems may differ depending on environmental factors such as culture. In this paper, it is of interest to look at the specific setting in which the investigation took place, due to the simple fact that context matters.

Pay raise for performance systems may have an emphasis on being more or less universalistic. In Sweden, contingent reward is used and the system is theoretically more universalistic as believes of appraising all employees equally through applying the same politics, methods, processes, and standards on all employees are exercised (Vilet, 2013). This may largely be due to Sweden’s economic and political history: as work tasks have become more specific and individualized, work itself has become more knowledge-based, flexible, and complex (Ferlie, Ashburner, Fitzgerald & Pettigrew, 1996). These changes have affected employees as well as employers, as they had to adapt to the new challenges of the globalized market. While employees formerly received pay raises exclusively according to, for instance, seniority or tenure in the company (Doherty, 2001), they now, in addition, receive pay raises foremost through criteria such as performance. Another important factor in Sweden is the strong position held by the unions. Their presence exhibits itself through collective agreements between union organizations and employers. As of its definition, a collective agreement is a written agreement between an employer’s organization and an employee’s union
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organization, which regulates any conditions of employment and/or the relationship between an employer and their employees (Industri Arbetsgivarna, 2017). In Sweden, both employees and employers mostly perceive pay raise for performance to be a beneficial system (Medlingsinstitutet, 2008). Nonetheless, the amount of money that is put aside annually for pay raise for performance purposes is very limited, and usually amounts for only very small percentage pay raises. This is why the actual distribution amongst all employees needs to be done with great care (OECD, 2003). Regarding the latter, a new concern regarding the effectiveness of such small pay raises in connection with employee outcomes has arisen: What is the smallest meaningful pay raise that affects employee behaviors? Mitra, Tenhiälä and Shaw (2016) suggest with the results of their field studies that there is an overall stability of employee behavior if not a certain pay increase threshold is passed. In their study, they found that this threshold is round about 5 to 8 percent, and might also depend on cultural background and profession. Therefore, an average increase of a mere couple percentage points, as it is mostly the case in the Swedish context, would thus be way below the smallest meaningful pay increase, and would thus not be expected to generate positive affective and behavioral employee responses at the workplace.

Hence, the purpose of the before-mentioned collective agreements is to continuously improve and enhance the pay-setting process as well as to establish a clear-cut connection between an employee's work performance, their prospective pay growth, and the organization's profitability, so as to invoke positive affective and behavioral employee responses (Swedish Work Environment Authority, 2017). Over the past years, new agreements regarding pay raise for performance have successively been elaborated. Still, they mainly just formalize the process of how raises shall be done and who is involved in the pay raise for performance setting. An example for this formalization would be the following: Previously in certain organizations a final approval from an HR and an employee/union representative would be necessary in order to agree on the exact amount of an employee's pay raise. Now, due to changes in some collective agreements it has become more common that the pay-setting supervisors and the employees (union members) themselves get more authority over handling the pay negotiations. For non-union members, this last approval from an HR and a union representative was, for obvious reasons, not needed. All in all, it is important to highlight that nowadays union as well as non-union members undergo the same pay raise for performance process. Another example regards the fact that both HR and the unions play important parts in the pay raise for performance setting as they ensure the smooth running of the overall pay-setting process. Their assistance is particularly of key importance in the rare occasion that a pay-setting supervisor and their employee are not able to agree on common
pay-setting terms. If so, the employee may file an appeal through their union representative. On behalf of this appeal it will then be HR and the union representative who assess whether the pay-setting process has been handled in line with the collective agreement or not. They will then give a recommendation to the pay-setting supervisor who will complete the negotiation with the employee. Therefore, HR and the unions serve as valuable support entities.

For that purpose, the Swedish National Mediation Office, Medlingsinstitutet, categorized and grouped all salary agreements into seven contractual arrangements. The National Mediation Office is a central government agency in Sweden that answers to the Ministry of Employment (Medlingsinstitutet, 2012a). Its main tasks are (1) to mediate labor disputes, (2) to promote efficient wage formation processes, and (3) to oversee the distribution of public wage and salary statistics. Their categorization of the seven contractual arrangements goes from local wage establishment, where salary increases are negotiated on a local level, to general increase, where the established central agreement regulates salary increases. Over the past ten years there has been a development expressing itself in a distinct increase in local salary establishments. Whereas there were only ten agreements in 2006, there were already twenty-four in 2016. This is an increase of 140% of local agreements within ten years. This indicates clearly that pay raise for performance is a trend that is in favor (Medlingsinstitutet, 2007; 2008; 2009; 2010; 2011; 2012b; 2013; 2014; 2015; 2016; 2017).

In Sweden employers expect that pay raise for performance will enhance employee performance and motivation (Lawler, 1991; Pfeffer, 1997), while employees believe to benefit from the individual reimbursements, because it gives prospects of gaining more rewards and of excelling at work (Harris, Anseel & Leivens, 2008). Therefore, most members of the both involved parties believe that the pay raise for performance setting is profitable for them as it appears to be fair to be rewarded for objectively delivered performance. Still, it might be noted that pay raise for performance is not necessarily used equally across all industries and working classes. Just so, in Sweden, for example, it is more common among white-collar than blue-collar workers.

2.3. Consequences of pay

While it has been found that pay level and/or raise are not the only determining factors for attracting and retaining employees (for a meta-analytic review see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014), it has also been found, in a study questioning 4.364 millennia employees in 75 countries, that nearly half (44%) of the participants were attracted to employers who not only offered higher pay levels, but also career perspectives and opportuni-
ties of growth (PWC, 2011). Evidence suggests that pay level influences people’s attraction to an organization (Saks, Wiesner & Summers, 1996; Schwoerer & Rosen, 1989; Williams & Dreher, 1992). Specifically, people seem to be more attracted to organizations that have a pay system that rewards for individual instead of group performance, and for job outcomes instead of gaining skills (Highhouse, Steierwalt, Bachiochi, Elder & Fisher, 1999). What is more, in regard to pay level, the work performance criterion as described above may easily end up being a most critical factor when negotiating an employee’s pay raise. Job performance can thus be seen as key criterion in this process, as it offers more room for negotiations compared to criteria such as current market or tenure in the company. The process in itself and the results of such negotiations can promote or diminish employee satisfaction, and influence their future intentions of staying or leaving an organization. It follows that pay raise for performance has been found to have positive effects on retention, as pay raise for performance systems encourage high achieving performers to stay in an organization while poor performers are enticed to leave (Williams & Livingstone, 1994). Therefore, variable pay plans lessen organizational employment variability, which in turn ensures employment stability (Gerhart & Trevor, 1996). This is why, to retain employees, organizations try to establish the most attractive pay system.

In consequence follows that an employee’s intention to stay, which in the past literature is also denominated as turnover intentions, is crucial to the long-term efficacy of an organization. Turnover intention has been investigated thoroughly in the past, as organizations were and still are interested in what causes employees to leave, and thus cause grave financial inconveniences for the organization. Nowadays, on the other hand intention to stay are investigated more frequently (Meyer, Hecht, Gill & Topolonytsky, 2010; Brown, Fraser, Wong, Muise & Cummings, 2013), so as to advance employee well-being and satisfaction to create more intentions to stay, and to lessen inconveniences for the organization. This is why in this study the definition of turnover intentions will serve as common knowledge base, so as to better understand the here investigated intention to stay. As of its definition a turnover intention is a deliberate and conscious inclination of an employee to leave the organization (Tett & Meyer, 1993). Turnover intentions are usually due to two types of reasons (1) personal reasons, and (2) reasons influenced by the organization. Personal reasons, such as changed family situation or the desire to learn a new trade, are more difficult to address by an organization because private matters do not fall into the jurisdiction of an employer. Reasons influenced by the organization on the other hand can be addressed. These include, for instance, (1) when an employee observes the unfair treatment of another colleagues through a supervisor, (2) when they are passed over for a promotion, or (3) when they do not receive the pay
raise they feel to be due. All in all, in certain cases, voluntary turnover is desirable in order to let go of under-performer. Organizations try to retain high performers and talents, which is why organizations are constantly searching for means and ways to keep their employees satisfied. A requirement for addressing this, though, is to know which factors influence each other and how. This is where the pay raise for performance setting negotiations play an important part, as pay level and pay raise is suggested to be linked to turnover-intentions (Wang, Chen, Hyde & Hsieh, 2010). Still, other, possibly moderating factors could also influence whether an employee performs well, and whether employees do or do not develop turnover intentions.

Overall, more research on pay raise for performance in association to enhancing performance and effectivity is needed (Gerhart, 2000) as there are more effects on performance to be considered than purely those effects arisen through the factor pay. It remains an open question whether pay level, independently of pay raise, affects consecutive employee performance and intention to stay in an organization. This is why, in this paper, pay level and pay raise will be looked at separately.

Taking the above mentioned into account the following hypotheses shall be tested:

1. Pay raise is positively associated with (a) performance and (b) intention to stay in an organization.
2. Pay level is positively associated with (a) performance and (b) intention to stay in an organization.

2.4. The importance of justice in the pay-setting

Forth following arises the question of how just and/or fair employees perceive the performance based pay setting. This question is of great relevance because pay raise and pay level alone, as seen above, are not necessarily enough to explain improved employee performance and intention to stay. The formal environment of an organization and its setting, such as the formal organizational justice, and how it is perceived by employees can erode all good that comes from factors that positively influence employee outcomes. Hence, the critical question: Does an employee’s justice perception influence the here looked at outcomes, namely work performance and intention to stay, or not?

*Overall organizational justice* is a global assessment of the fairness of an organization. Justice perceptions of employees have been deliberated as explanatory variables in organi-
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Organizational justice stresses a person’s perception of received fairness from an organization, and their subsequent behavior that results from this perception (James, 1993). Overall organizational justice furthermore accentuates fairness regarding the general subjective perception of how an organization distributes its resources and how they treat their employees. This overall organizational justice can then be narrowed down into more details resulting in various justice dimensions (e.g. distributive, procedural, and interactional justice), which refer to whether an organization follows these overall justice rules or not (Goldman & Cropanzano, 2015). As of Byrne and Cropanzano (2001): “at its most general level, organizational justice is an area of psychological inquiry that focuses on perceptions of fairness in the workplace” (p. 4). This is complimented by Adams’ (1963) equity theory, which states that employees intend to establish a balance between their own and their colleague’s inputs and outputs in relation to the organization. Equity is therefore based on the perceived ratio of inputs to outputs. It is believed that people are motivated to maintain a certain level of fairness. As a matter of fact, employees who were asked to classify workplace events that angered them most, the overall response was “being treated unfairly on the job” (Fitness, 2000). Taking this into account, it is understandable that employee perceptions of justice and fairness in organizations has been and still is of considerable interest in relation to the various organizational behaviors (Greenberg, 1996; 2007). On the whole, justice perception may thus have an effect on the association of employee performance and/or intention to stay in relation to pay raise for performance and pay level. Considering this, justice perception is expected to have an impact on organizational outcomes in relation to pay.

Organizational justice is considered to be composed of several facets or components. In brief, the facet distributive justice refers to a person’s perception of outcome fairness, while procedural justice relates to fairness perceptions of how those outcomes were determined (Folger & Konovsky, 1989; Cropanzano & Greenberg, 1997). Therefore, distributive justice is concerned with the ends and procedural justice with the means (Sweeney & McFarlin, 1997) of if outcomes are perceived to be fair or not. In regard to this, the expectancy theory of motivation states that a person’s motivation is influenced by the believes of that effort will result in higher performance (expectancy), and believes of that higher performance will give rise to superior rewards (instrumentality), which are valued (valence) by the employees (Robbins, 2001, p. 173).

Earlier research that investigated pay typically focused on distributive justice, and on how employees perceive the distribution of goods to be fair (Cohen-Charash & Spector,
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2001; Colquitt, Conlon, Wesson, Porter & Ng, 2001; Maaniemi, 2013; Viswesvaran & Ones, 2002). Due to the connection of distributive justice and outcome fairness, it is expected to have a strong link with instrumentality, which in turn is expected to influence motivational employee behavior (e.g. being motivated to perform well, or having inclinations to stay or leave an organization). The second justice dimension that has been deemed to be important in relation to pay, concerns the procedures within the organization of the distribution of goods. Of the various proposed dimensions of justice, these two are of particular relevance when it comes to pay raise for performance setting (Cohen-Charash & Spector, 2001) and will thus be of importance in this investigation.

First, an employee’s perception of the organization’s distributional justice shall be highlighted when looking at the facets, as there is crucial evidence of links between distributive justice to performance (Greenberg, 1986b), and turnover intentions (Nadiri & Tanova, 2010). Distributive justice is probably the most frequently used measure when evaluating pay justice, as it relates to connections between justice perceptions and financial outcomes. Thus it is closely connected to employee pay raise satisfaction (Folger & Konovsky, 1989). Distributive justice refers to the Rawlsian concern regarding the equitable distribution of goods in society (Lessnoff, 1971; Beitz, 2000). According to Rousseau (1989) an employee performs his job because he expects to receive some compensation. Thereby the employee’s expectation can easily lead to either satisfaction or dissatisfaction after the exchange, depending on their initial expectation (Blau, 1964). Distributive justice perceptions may influence the degree of the effect of the relationship between individualized performance based pay raise setting and/or pay level, and employee performance and intention to stay. What is more, a positive or a negative perception of distributive justice in employees may arise due to the individualized performance based pay raise setting and/or pay level, as employees become directly confronted with the pay system. Thus, the perception employees create during and after this process may affect their following behavior regarding positively or negatively altering their work performance as well as their intentions to stay. It was found that the more fair employees perceive the distribution of received outputs by an organization (e.g. Pay raise, etc.) the less turnover intention did they develop. In addition, by providing a work environment to employees that considers distributive justice perceptions, it is more likely that they will be retained in the organization in the long run, which thus leads to benefits such as saving recruiting costs etc. (Fatt, Khin & Heng, 2010).

In order to not let a sense of distributive injustice arise in employees, the output from the organization (i.e. pay) must thus be perceived equal to the input (i.e. performance) by the
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employee (Homan, 1974). As of distributive justice in association with pay, people want to get the proportional reward corresponding to what they believe to deserve in correspondence to their performance (Adams, 1963). From the mid-1960s to the mid-1980s this contemplation, called equity theory (Adam, 1965), was the prevailing approach on the subject of workplace fairness. Equity theory has largely been supported by earlier studies designed to test its fundamentals (Greenberg, 1982), and has thus brought evidence to various organizational singularities. Accordingly, equity theory has, e.g., shed light on why pay cuts have lead to factory workers stealing goods at work (Greenberg, 1990a), or why the performance of professional baseball players decreased exponentially as they were getting paid less from one season to the next (Sturman & Thibodeau, 2001). Granting that equity theory is not researched as much nowadays as back then, it remains an important concept of distributive justice, and it is still being used by organizational researchers (Mowday & Colwell, 2003).

Notwithstanding, equity theory has also been criticized as its exclusive focus on distribution appears to be too narrow and unable to capture the grand variety of justice related feelings that are not solely caused by in- and outputs.

The second justice dimension that is of importance for this paper is procedural justice. As of Leventhal (1980) additional understanding about how outputs are being distributed, namely procedural justice, influences an employee’s justice perception. It was found that people recognized legal systems to be fairest when they were allowed to have a say in the proceeding, which would give them the opportunity to influence outcomes (Thibaut & Walker, 1975; Lind & Kulik, 2009). The conclusions to those investigations are that (1) fair processes are important to people, and that (2) people take various aspects into account when considering fair procedures (Leventhal, 1980; Leventhal, Karuza & Fry, 1980). Narrowing in on this, the six aspects that could be identified as important for fair procedures at organizations are: consistency, bias suppression, accuracy, correctability, representativeness and ethicality. This concept has received great support as it was being implemented profoundly afterwards when studying organizations (Greenberg, 1990b). First, it was found that procedural fairness perceptions by employees predicted job outcomes such as pay raise satisfaction (Folger & Konovsky, 1989). For instance, when employees were asked to identify important factors for performance-appraisal-system-fairness they identified distributive factors for, e.g. pay based on job performance, and procedural factors for, e.g. performance rating based on accurate information (Greenberg, 1986a). Second, it was found in certain organizational fairness assessments that procedural justice accounts for significantly more variance than distributive justice (Alexander & Ruderman, 1987; Tyler & Caine, 1981). Over all, meta-analysis suggests that procedural justice is more significant for job satisfaction, including pay raise, or-
ganizational commitment, intention to stay, and heightened employee performance than other justice facets (Cohen-Charash & Spector, 2001; Colquitt, Conlon, Wesson, Porter & Ng, 2001; Maaniemi, 2013; Viswesvaran & Ones, 2002).

In conclusion, empirical evidence suggest that procedural justice carries greater weight than distributive justice (Colquitt & Greenberg, 2003; Colquitt, Greenberg & Zapata-Phelan, 2005). Further data obtained from this study on the role of procedural and distributive justice on performance and intention to stay shall contribute to clarify past investigations.

Following, the succeeding hypotheses will be tested in this paper:

3. Distributive justice is positively related with (a) performance and (b) intention to stay in an organization.
4. Procedural justice is positively related with (a) performance and (b) intention to stay in an organization.

2.5. The importance of transformational leadership

As the pay raise for performance setting process commonly takes place in a one on one meeting between an employee and his pay-setting supervisor, leadership skills may play an important part of how an employee perceives the pay raise for performance setting process, which is why it shall be a topic of concern in this paper (Dvir, Eden, Avolio & Shamir, 2002). The word leadership comes from common speech and was later on integrated into the technical science vocabulary without further ado. Consequently, it includes many different intrinsic implications which tend to then create ambiguity of meaning (Janda, 1960). Because of this it is said that there might be as many definitions of leadership as researchers trying to define it (Stogdill, 1950). This is why, in this paper, a common understanding of leadership will be achieved by looking at the following definition: as of Yukl and Van Fleet (1992) “Leadership is viewed as a process that includes influencing the task objectives and strategies of a group or organization, influencing people in the organization to implement the strategies and achieve the objectives, influencing group maintenance and identification, and influencing the culture of the organization” (p. 149).

Leadership has been classified as having various styles. These styles, as well as how leadership is investigated, have been changing throughout time. In 1978 Burns introduced transformational and transactional leadership as a construct with a single continuum, with the first on the one end and the second on the other end of the continuum. But newer research
suggests that these two leadership styles can appear independently from each other. Still, it is proposed that the best leaders exhibit both leadership styles depending on context and environment (Bass & Avolio, 1993).

Leaders, also called supervisors, managers, or likewise, are omnipresent figures in an employees day-to-day working life. A direct supervisor is usually the first person of reference for an employee. Getting along with ones’ supervisor can affect an employee in numerous positive as well as negative ways, and change their perception of the work-environment. What is more, as elaborated above, the pay-setting process depends more and more on employee-supervisor negotiations. An employee’s behavior, cooperativeness, performance and perception of the pay-setting may thus be highly influenced by their supervisor’s leadership abilities.

In general, leaders interact with their subordinates through transactions. They explain requirements and demands, while they promise compensation for meeting those requirements and demands. In a study concerning effective leadership through transaction, 44 specific, effective management behaviors were identified (Bass & Riggio, 2006). Of those, particularly two factors characterized modern leadership. These are (1) initiating and organizing work, which focuses on achieving current work tasks, and (2) showing consideration for employees, which centers on leaders satisfying the need for appreciating the self-interest of high performance employees. Thus, transactional leaders meet the expectations of recognition of well performing employees through, for instance, pay raise and job promotions. Low performing or underachieving employees on the other hand may not receive additional recognition. This promise of reward for good performance and so called punishment for poor performance is a main characteristic of transactional leadership (Bass, 1990a). However, in the long run it is highly ineffective to try to improve employee performance through not-appreciating or punishing them. This is particularly an issue when leaders rely too much on passive management-by-exception and only interact with their subordinates when requirements and demands have not been met with. What is more, the expectation of rewards and avoidance of punishment depends highly on whether superiors have control over rewards and punishments, and on the degree of desire for rewards or fear of punishments of the respective employee. For example, in most organizations a common criterion for pay raise is seniority or tenure in the company, which cannot be affected by a pay-setting supervisor. This lack of control is why, contingent reward does not work in such settings, and this is also why in relation to pay raise for performance a further look at a more faceted leadership style needs to be taken.
As of its definition, *transformational leadership* is “a leader’s ability to articulate a shared vision of the future, intellectually stimulate employees, and attend to individual differences in employees” (Brown & Keeping, 2005, p. 246). Four main characteristics have been identified across cultures (including the United States, Great Britain, Canada, Japan, and India) as well as across industries and professions (including chief executive officers, senior and middle level managers in industrial and business organizations) for transformational leaders. These are (1) charisma, (2) inspiration, (3) intellectual stimulation, and (4) individual consideration (Bass, 1990b; Bass & Avolio 1990). Being charismatic in the eyes of subordinates is a central characteristic, as employees strive to identify with such leaders, due to having trust and confidence in them. Through being charismatic, transformational leaders inspire their subordinates which in turn motivates them to high performance, and extra efforts. By intellectually stimulating their employees, they encourage them to be creative and innovative in their daily problem solving. A core element thereby is managing their subordinates understanding and the meaning of actions, processes etc. (Densten, 2005). This is particularly of importance regarding transactional components such as pay (Salimäki, Hakonen & Heneman, 2009). Additionally, transformational leaders consider individuals by exercising mentorship or by role modeling; thereby they furthermore inspire employees to grow professionally as well as personally so as to enable them to become high performers and future leaders themselves (Bass & Riggio, 2006).

The outcome of this is that transformational leaders are more likely to be seen as effective leaders according to supervisor’s, colleague’s, and employee’s responses instead of transactional leaders and contingent reward. This knowledge is of great value for the pay-setting process. A supervisor who has been able to appreciate an employee’s work efforts and who has guided them to perform better throughout the past performance process cycle by setting examples, is thus more likely to be perceived as an effective transformational leader. It has been found that superiors add to their subordinate pay satisfaction when they use a goal-setting process that informs employees about the pay system function, and when they receive feedback on the job. Both, knowledge and meaning of pay, mediate the effects of goal setting on pay satisfaction. More specifically, while knowledge mediates the effect of pay level, meaning of pay mediates the effect of goal setting on pay satisfaction (Salimäki, Hakonen & Heneman, 2009). Thus, transformational leaders help their employees understand the value of their work, and how this work contributes to the greater organizational objectives (Burke et al., 2006). Overall, by having a transformational leadership style, a supervisor will be recognized as more organized and fair in regard to the pay raise for performance
setting. In fact, managers who were valued by their subordinates as transformational were also labeled, in a separate evaluation, as high performers by their supervisors, indicating a generational effect. What is more, organizations with predominantly transformational leaders are better off financially (Bass & Riggio, 2006).

Regarding performance and employee effort in relation to leadership, a study that questioned 228 employees of 58 managers in a large engineering firm found that employees exert considerably more additional effort when working for transformational leader instead of employees who worked for transactional leaders. The latter even expressed that they only exert little effort (Bass & Riggio, 2006). Overall, 75% to 82% of transformational leadership managers had highly engaged subordinates, whereas only 22% to 24% of transactional leadership managers had subordinates who actively engaged in performing extra efforts. Positive implications of transformational leadership have thus been found in relation to performance (Bass & Riggio, 2006). Amongst leadership styles transformational leadership has been found to distinguish itself when it comes to outcomes, such as increasing performance (Dvir, Eden, Avolio & Shamir, 2002), and lessening turnover intentions (Herman, Huang & Lam, 2013; Bycio, Hackett & Allen, 1995). Even more, leadership styles have been found to have an indirect effect on retention (Hytter, 2007), and leadership skills correlate significantly positive with retaining employees (Kyndt, Dochy, Michielsen & Moeyaert, 2009). Still, little research has been done on the concrete effects of transformation leadership or leadership styles and retention. It is more common to find research on investigating certain components of leadership in relation to retention appreciation than transformational leadership itself. This can been seen particularly when recognizing the research efforts of several authors, who came to the conclusions that the factors respect, support, opportunity to be heard by their direct supervisor, and encouragement, increased employee retention (Butcher & Kritsonis, 2007; Howard, 1997; Howard & Gould, 2000; Taylor, 2004)

All in all, on this constantly changing world market, organizations need to be flexible so as to anticipate technological innovations, and so as to answer to new demands. This is why, for organizational functionality and competitiveness, leadership skills, particularly transformational leadership skills, are of the utmost importance, because transformational leaders are able to meet constant new challenges by making fast decisions and motivating as well as inspiring their subordinates to adapt and live up to those challenges. Through transmitting trust to employee's they are key figures when it comes to the pay raise for performance setting process in relation to employee performance and retention.
Concerning this investigation, the following hypotheses shall be investigated in accordance to the above found theoretical information:

5. *Transformational leadership is positively related with (a) performance and (b) intention to stay in an organization.*

2.6. The moderating role of procedural and distributive justice, and transformational leadership

The direct association of procedural justice and distributive justice on performance and on intention to stay has long been investigated (Fatt, Khin & Heng, 2010; Nadiri & Tanova, 2010; Dailey & Kirk, 1992; Alexander & Rudeman, 1987; Adams, 1965; Thibaut & Walker, 1975; Lind & Kulik, 2009; Greenberg, 1990b). It is well possible that the important direct effects of justice perception by employees also indirectly affect the relationship of pay and certain outcomes, because justice is omnipresent in an employee’s day-to-day work life. Harris, Andrews and Kacmar (2007) found that the perception of justice at the workplace are related significantly to turnover intentions and job satisfaction. Therefore, their results support the notion that the perception of justice at the workplace may be a possible stressor that potentially affects employee behaviors negatively. Thus, it is of importance to scrutinize the possible moderating effect of justice due to potential buffering effects. Up to date there only exist few concrete studies that investigate the positive or negative directional effects on the direct link of pay factors and outcomes, such as performance and intention to stay, of procedural and distributive justice as moderators (Cohen-Charash & Spector, 2001). What is more, findings from field versus laboratory studies are not always in accordance, which is why further empirical evidence on the subject of justice as moderating factor shall help to advance the current state of knowledge in this field.

The same applies to transformational leadership. Countless studies have investigated outcomes that are due to transformational leaders or have scrutinized certain characteristics that are essential for a transformational leader in relation to pay. These include but are not restricted to feedback, job satisfaction, pay satisfaction, citizenship behavior, trust in supervisor, commitment, compliance, voice, and communication. For instance, research suggests positive relationships between employee perceptions of pay raise and both (1) pay satisfaction (Heneman, Greenberger & Strasser, 1988; Huber, Seybolt & Venemon, 1992; Williams, McDaniel & Nguyen, 2006) and (2) job satisfaction (Kopelman, 1976). Both of which are related to intentions to staying or leaving an organization. The daily contact of an employee and their supervisor makes it key for leaders to be good leaders, that is, to be transforma-
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tional leaders. Research literature on compensation provides evidence that pay, independently of how it is handed out, affects the relationship an employee has with their organization (Gerhart & Milkovich, 1992; Heneman, 1992; Lawler & Jenkins, 1992; Opsahl & Dunnette, 1966; for a meta-analytic review see: Cohen-Charash & Spector, 2001). Furthermore, it has been found that transformational leadership affects performance and intention to stay (Bass & Riggio, 2006; Dvir, Eden, Avolio & Shamir, 2002; Hytter, 2007; Kyndt, Dochy, Michielsen & Moeyaert, 2009; Butcher & Kritsonis, 2007; Howard, 1997; Howard & Gould, 2000; Taylor, 2004; for a meta analytic review see: Margolis, Elfenbein & Walsh, 2007). Precisely, transformational leadership and the direct links to the two investigated outcomes in this paper, namely performance and intention to stay, have been investigated thoroughly over the past decades resulting in the notion that monetary incentives might, at best, promote positive employee outcomes (Fang & Gerhart, 2012; Gerhart & Fang, 2014, for meta-analytic reviews see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014; Garbers & Konradt, 2014). On top of that, it has been found that transformational leaders boost their subordinate pay satisfaction through adding knowledge and meaning of pay raise. Both, knowledge and meaning, mediate the effects of goal setting on pay satisfaction (Salimäki, Hakonen & Heneman, 2009). What is more, transformational leaders help their employees to understand the meaning and importance of their work, and how their work relates to the greater organizational objectives (Burke et al., 2006). This is why there is a necessity to further investigate transformational leadership in different constellations for practical implications, for example, as a moderating variable on the relationship of pay and employee outcomes. The fact that leadership is such an ubiquitous phenomenon that affects an employee’s daily work life makes it imperative to analyze the effects it might have on the association of pay and employee outcomes.

The succeeding hypotheses regarding interaction effects will be tested in this paper:

6. The relation of pay raise with (a) performance and (b) intention to stay in an organization is stronger if (i) distributive justice, (ii) procedural justice and (iii) transformational leadership are high.

7. The relation of pay level with (a) performance and (b) intention to stay in an organization is stronger if (i) distributive justice, (ii) procedural justice and (iii) transformational leadership are high.
3 Questions and hypotheses

As mentioned above, many organizations expect pay factors to maintain and enhance employee performance. Current research supports such assumptions (for a meta-analytic review see: Judge, Piccolo, Podsakoff, Shaw & Rich, 2010; Kanter, 1987). While there appears to be a thorough foundation for such assumptions other factors are suspected to play similar or maybe even more important roles in employee behavior outcomes than pay (Salimäki, Hakonen & Heneman, 2009; Wang, Chen, Hyde & Hsieh, 2010). Thus, the purpose of this study is to examine the moderating effects of distributive justice, procedural justice and transformational leadership on the association between either pay level or pay raise on employee performance and intention to stay.

In summary, the following hypotheses shall be answered within this paper:

1. Pay raise for performance is positively associated with (a) performance and (b) intentions to stay.
2. Pay level is positively associated with (a) performance and (b) intentions to stay.
3. Transformational leadership is positively related with (a) performance and (b) intentions to stay.
4. Procedural justice is positively related with (a) performance and (b) intentions to stay.
5. Distributive justice is positively related with (a) performance and (b) intentions to stay.
6. The relation of pay raise for performance with (a) performance and (b) intentions to stay is stronger if (a) distributive justice, (b) procedural justice and (c) transformational leadership are high.
7. The relation of pay level with (a) performance and (b) intentions to stay is stronger if (a) distributive justice, (b) procedural justice and (c) transformational leadership are high.
4 Method

4.1. Setting

All data was collected in an industrial company in Sweden. Their headquarters are in the south of Sweden and there are various more locations across Sweden. The industry is male dominant with a ~70% portion of male employees, who are mainly highly educated engineers. The research group was allowed to invite all employees to participate. All participants were white-collar workers. The organization participated in this research as they have made great efforts in regard to improving their pay raise for performance system in the past and will continue doing so. Their interest lays in strengthening the bond between employee performance and salary.

4.2. Sample and procedure

The data for this study was collected through online questionnaires, which were sent out to all employees of a private industrial Swedish organization. The organization’s management and labor unions supported the organization’s participation in this research project. They informed the staff about the data collection. The research team held information meetings with the stakeholders. The organization’s participation was announced to all employees via email. This announcement included a link to further detailed information on their intranet platform. In early spring, the employees received the invitation with a direct link to the questionnaire from the research team. This invitation included additional enlightenment about the objectives of the study, and instructions on how to fill out the questionnaire. All participants were given information about data treatment and confidentiality. Participants were allowed to fill out the questionnaire during regular working time. A total of four reminders were sent out. The questionnaire took about 20 to 30 minutes to answer and was available in Swedish and English language. The data collection took place during May through June 2016. Information regarding the participant’s salary levels were obtained from the organization. The project was approved by the regional ethical review board (Etikprövningsnämnden) in Stockholm.

The questionnaire was sent to all 809 employees in the affiliated company. A total of 304 employees (37.6%) filled out the questionnaire. Of these six participants were excluded as there was no information about their pay in the register data, and another 47 participants had to be excluded as they had not responded to any items measuring the outcome variables (job performance and intention to stay). This resulted in an effective sample of 255 and a response rate of 31.5%. Men constituted the majority and made up 81% of the effective
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sample. The age ranged from 23 to 65 years \((M = 46.1, \ SD = 11.35)\), while 95.7\% worked full-time. All participants were white-collar workers.

4.3. Measures

If not stated otherwise, the responses were obtained through a 5-point Likert scale with response alternatives ranging from 1 (strongly disagree) to 5 (strongly agree). Internal consistency (reliability) of the variables was calculated with Cronbach’s alpha. The descriptive statistics (means, standard deviations, inter-correlations) for all variables can be found in Table 1. The regression results for Performance and Intention to Stay are presented in Table 2.

Pay variables. Pay raise and pay level were taken from the register given to the research team by the organization. Pay level was obtained in SEK (from 2016). Pay raise was obtained through calculating the increase from year 2015 to 2016 (in percent).

Moderators. Distributive and procedural pay justice were assessed using scales developed by Colquitt (2001) which were adapted for pay (Andersson-Stråberg, Sverke & Hellgren, 2007). They reflect how fairly employees perceive to be treated by their employer in relation to pay setting. The distributive justice scale consisted of four items, an example is ‘To what extent does your pay reflect the effort and dedication you have to put into your work?’ \((\alpha = .94)\). The procedural justice scale is made up of seven items, including: ‘To what extent have you been able to express your views and feelings on pay-setting issues?’ \((\alpha = .86)\). Transformational Leadership was measured using the nine-item scale by Yukl (1999). Items include ‘My supervisor… acts in accordance with the ideals and values that he/she expresses.’, and ‘My supervisor… treats every employee as an individual with different needs, abilities, and aspirations.’ \((\alpha = .93)\).

Outcome variables. Performance was measured with the five-item scale by Koopmans et al. (2014), with one example being ‘In the past 3 months… I have managed to plan my work so that it was done on time.’ \((\alpha = .79)\). Intention to stay was measured with a three-item turnover intention scale developed by Sjöberg and Sverke (2000). This scale was coded reversely to reflect the intention to remain in the organization. An example item is ‘I am actively looking for other jobs’ (reverse coded). A high score reflects weak intention to leave the job \((\alpha = .82)\).
Control variables. The demographic control variables included age (in years), gender (1 = woman, 0 = man) and percentage of employment (from 0 to 100%), to assure that variations in these variables would not influence in the results.

4.4. Analysis

Separate hierarchical moderated regression analyses were performed for each outcome variable. For each outcome, separate regressions were performed for one moderator at the time. Each regression consisted of four steps. First the demographic variables were entered into the model to control for their possible influence on the outcomes. Second, pay level 2016 and pay raise were added as predictor variables. Third, each of the three moderators, transformational leadership, procedural justice and distributive justice, were added separately for each dependent variable. In the fourth step, the two-way interaction terms of each pay raise and pay level with the correspondent moderator was entered into the model. For the interaction terms the centered variables were used following the procedure suggested by Cohen, Cohen, West and Aiken (2003).
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Table 1. Descriptive statistics and Pearson correlations of the research variables.

<table>
<thead>
<tr>
<th>Variable No.</th>
<th>M</th>
<th>SD</th>
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<td>Controls</td>
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<tr>
<td>1 Age (in years)</td>
<td>46.09</td>
<td>11.35</td>
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<tr>
<td>2 Gender (woman)</td>
<td>0.18</td>
<td>0.39</td>
<td>-0.06</td>
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<tr>
<td>3 Employment rate (%)</td>
<td>99.12</td>
<td>4.95</td>
<td>-0.06</td>
<td>-0.09</td>
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<td>Predictors</td>
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<tr>
<td>4 Pay level (SEK)</td>
<td>38316.81</td>
<td>7823.39</td>
<td>0.43</td>
<td>-0.26</td>
<td>0.09</td>
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<td>5 Pay raise (%)</td>
<td>2.51</td>
<td>0.76</td>
<td>-0.22</td>
<td>0.14</td>
<td>0.05</td>
<td>-0.12</td>
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<td>Moderators</td>
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<tr>
<td>6 Distributive justice</td>
<td>2.93</td>
<td>1.03</td>
<td>-0.08</td>
<td>0.07</td>
<td>0.07</td>
<td>0.18</td>
<td>-0.04</td>
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<tr>
<td>7 Procedural justice</td>
<td>3.05</td>
<td>0.83</td>
<td>-0.08</td>
<td>0.13</td>
<td>0.04</td>
<td>0.07</td>
<td>0.07</td>
<td>0.67</td>
<td>–</td>
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<tr>
<td>8 Transformational leadership</td>
<td>3.11</td>
<td>0.89</td>
<td>-0.17</td>
<td>0.06</td>
<td>0.09</td>
<td>-0.04</td>
<td>0.01</td>
<td>0.53</td>
<td>0.63</td>
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<tr>
<td>Outcomes</td>
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<tr>
<td>9 Performance</td>
<td>3.81</td>
<td>0.63</td>
<td>-0.01</td>
<td>0.11</td>
<td>-0.08</td>
<td>-0.02</td>
<td>-0.01</td>
<td>0.03</td>
<td>0.27</td>
<td>0.26</td>
<td>–</td>
<td></td>
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<tr>
<td>10 Intention to stay</td>
<td>3.80</td>
<td>1.07</td>
<td>0.18</td>
<td>0.03</td>
<td>0.06</td>
<td>0.02</td>
<td>0.04</td>
<td>0.21</td>
<td>0.25</td>
<td>0.30</td>
<td>0.21</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes: *** p < 0.001, ** p < 0.01, * p < 0.05 (N=255).

Scale range: 1-5 for all variables, except age (years), gender (0=man, 1=woman), employment rate (in percent), pay level (in SEK), and pay raise (in percent).
5 Results

The results of the hierarchical multiple regression analyses are reported in Table 2. The control variables entered in the first step of the equations accounted for four percent of the variance in intention to stay but did not account for any significant proportion of the variance in performance. Age was positively related to intention to stay, while gender and employment percentage were not significantly related to any of the outcomes.

The second step, which introduced the pay variables, did not explain significant proportions of the outcomes. Both pay level and pay raise were generally unrelated to both performance and intention to stay. The only significant association concerned pay level displayed a negative association with intention to stay in the model using distributive justice as moderator. Nonetheless, this regression coefficient should be interpreted with caution as it is likely to represents a suppressor effect, given that the bivariate correlation between pay level and intention to stay was non-significant (.02; see Table 1).

The main effects of the moderator variables, introduced in Step 3, generally contributed to explain additional variance in the outcomes. The model including distributive justice contributed to an additional 6 percent of explained variance in intention to stay but did not account for any additional variance in performance. Distributive justice evidenced a positive association with intention to stay ($\beta = .21, p < .01$) but was unrelated to job performance. The model focusing on procedural justice accounted for an additional 7 percent of the variance in both outcomes. Procedural justice was positively related to both intention to stay ($\beta = .25, p < .01$) and job performance ($\beta = .27, p < .01$). The model that included transformational leadership contributed an additional explained proportion of the variance in both intention to stay (11%) and performance (7%). Transformational leadership had a positive association with intention to stay ($\beta = .30, p < .01$) and performance ($\beta = .26, p < .01$).

The interaction terms entered in Step 4 did not account for significant increases in explained variance in any of the models. Only one of the specific interaction effects was found significant, namely, the interaction between pay level and transformational leadership in predicting job performance ($\beta = .13, p < .05$). This interaction is plotted in Figure 2. As can be seen from Figure 2., there was a tendency that higher pay level
was associated with better performance when transformational leadership was high rather than low. However, neither the slope for high transformational leadership ($B = 0.89, t = 1.23, p > .05$), nor the slope for low transformational leadership ($B = -0.89, t = -1.48, p > .05$) were significant.

All in all, the models of intention to stay accounted for about 11 to 17 percent of explained variance, depending on what moderator variable (distributive justice, procedural justice, or transformational leadership) was included. And, regarding explained variance in performance, no significant proportion in the model including distributive justice was found, but both the models including procedural justice and transformational leadership accounted each for 10 percent of the variance in performance.
Table 2. Results of hierarchical multiple regression analyses predicting intention to stay and performance with distributive justice, procedural justice and transformational leadership as moderators (standardized regression coefficients from the last step).

<table>
<thead>
<tr>
<th>Moderator</th>
<th>Distributive Justice</th>
<th>Procedural justice</th>
<th>Transformational leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intention to stay</td>
<td>Performance</td>
<td>Intention to stay</td>
</tr>
<tr>
<td>Age</td>
<td>.29***</td>
<td>-.01</td>
<td>.28***</td>
</tr>
<tr>
<td>Gender (woman)</td>
<td>-.02</td>
<td>.10</td>
<td>.28</td>
</tr>
<tr>
<td>Employment (%)</td>
<td>.06</td>
<td>-.06</td>
<td>.06</td>
</tr>
<tr>
<td>ΔR²</td>
<td>.04</td>
<td>.01</td>
<td>.04</td>
</tr>
<tr>
<td><strong>Step 2: Main effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay level (PL)</td>
<td>-.16**</td>
<td>-.02</td>
<td>-.12</td>
</tr>
<tr>
<td>Pay raise (PR)</td>
<td>.10</td>
<td>-.01</td>
<td>.07</td>
</tr>
<tr>
<td>ΔR²</td>
<td>.01</td>
<td>.00</td>
<td>.01</td>
</tr>
<tr>
<td><strong>Step 3: Moderators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributive justice (DJ)</td>
<td>.27***</td>
<td>.04</td>
<td></td>
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<tr>
<td>Procedural justice (PJ)</td>
<td></td>
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<td>Transformational leadership (TL)</td>
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<td>ΔR²</td>
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<td><strong>Step 4: Interaction Effects</strong></td>
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<td>PL * DJ</td>
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<td>PR * TL</td>
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<tr>
<td>Total R²</td>
<td>.11***</td>
<td>.03</td>
<td>.12***</td>
</tr>
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Notes: ***p < 0.001, **p < 0.01, *p < 0.05 (N=255).
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Figure 2. Interaction effect between pay level and transformational leadership in relation to performance.
6 Discussion and future research

The here presented study’s main objective was to analyze the moderating effects of distributive justice, procedural justice and transformational leadership on the association of pay level and/or pay raise with employee performance and/or intention to stay. The importance of analyzing these moderating effects is due to the fact that in large private organizations worldwide pay raise for performance settings and pay level are connected more and more habitually with employee behaviors such as performance and intention to stay (Fang & Gerhart, 2012; Gerhart & Fang, 2014, for meta-analytic reviews see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014; Garbers & Konradt, 2014).

6.1. Significant findings

Intention to stay was positively related to age. Pay level and pay raise were generally unrelated to the outcomes. Distributive justice evidenced a positive association with intention to stay but was unrelated to job performance. Procedural justice and transformational leadership were positively related to both intention to stay and job performance. The results generally provide no support for the notion that justice and leadership moderate the association between pay and employee outcomes, as only one of the twelve tested interaction terms were significant. However, transformational leadership moderated the association between pay level and job performance, such that a higher pay level was associated with better performance under the condition of high transformational leadership. Overall, there was no incremental variance for the latter and it did not explain any significant additional variance.

The findings show that demographic characteristics (age, gender, employment in percentage) play a minor role in the here tested models. Still, consistent with previous studies, the results suggest age to be significantly related to intention to stay (Bayazit & Mannix, 2003; Schnake, Williams & Fredenberger, 2007; Chew & Chan, 2008). This finding is not surprising as older employees are more likely to be settled near their workplace, they might have established friends as well as family responsibilities to keep in mind, and they are more likely to be looking forward to retirement than younger employees. What is more, older employees receive a higher pay level than younger employees, which may be due to tenure in the organization, and they are more familiar with tasks and day-to-day processes at their current workplace. A change of organization might uproot private matters, such as relocating ones’ family, and it might not have the monetary and career benefits as it may have for younger employee. Even though older employees keep their years of experience, they would still lose their status of tenure in the organization, which is more sever for them than for
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younger employees. It is more than sensible that older employees with higher pay levels are more likely to staying in the same organization than younger employees who nowadays are less tied to a particular location or career path.

Another finding in concerning age in this study is in regard to attraction. As seen in Table 1, younger employees in this study get higher pay raises, whilst older employees have a higher pay level. This finding is in line with previous research results that support the view of younger employees being attracted to employers who offer higher pay levels, as well as prospective and opportunities of growth throughout ones’ career (PWC, 2011).

6.2. Pay level and pay raise in relation to the outcomes

Pay level and pay raise were, overall, unrelated to the outcomes performance and intention to stay. Both pay variables did not account for any additional significant explained variance in all six models. This results in that the hypothesis H1 (a) and (b) (Pay raise is positively associated with (a) performance and (b) intention to stay in an organization), as well as hypothesis H2 (a) and (b) (Pay level is positively associated with (a) performance and (b) intention to stay in an organization.) could not be verified in this study. The expectancy of pay having beneficial relevance for the outcomes could not be supported, which is why H1 and H2 were discarded.

Past research of findings on positive effects of pay raise on retention (Heneman, Greenberger & Strasser, 1988; Huber, Seybolt & Venemon, 1992; Williams, McDaniel & Nguyen, 2006) could therefore not be supported with the here obtained results. Also, no further proof could be found for pay raise for performance systems to be encouraging high achieving performers to stay in an organization while enticing poor performers to leave (Williams & Livingstone, 1994). The expectation that variable pay plans lessen turnover which in turn ensures organizational stability (Gerhart & Trevor, 1996) could also not be supported. What is more, the positive effects found by Durham and Bartol (2000) of pay raise having first, a positive influence on the motivation of an employee to perform well, and, second, an impact on an organization’s ability to attract and retain employees, could not be supported with this study. With these findings, no further positive proof has been contributed to the open question of whether pay level affects successive employee performance and retention as it is assumed that retention improves when past high performance has been reinforced repeatedly through pay raises (for a meta-analytic review see Jenkins, Mitra, Gupta & Shaw, 1998;
Lawler & Jenkins, 1992). Rather this study implies that pay raise for performance and pay level are unrelated to the outcome variables performance and intention to stay.

These contradictive findings may be a result of the context of this study, which should be taken into account. This study was performed in Sweden in the private sector with white-collar workers, where the union’s influence is strong and pay raises are usually of very few percentage points. Accordingly, the here obtained results may be explained through findings of previous studies emphasizing the smallest meaningful pay increase. In these studies authors found an overall employee behavior stability as long as a certain pay increase threshold was not passed. This threshold was found to range quite high around 5 or 8 percent and was also depending on context factors, such as work area and culture (Mitra, Tenhiälä & Shaw, 2016). Thus, the average increase of a couple percentage points, as seen in this study, which is quite common in most private organizations, is thereafter not expected to drastically affect a change in employee behaviors such as intentions to stay or performance. Another reason for this finding here may be that pay is an extrinsic motivator, which, if considered as sole factor, might not be sufficient to motivate employees to stay in the same organization or to perform highly (PWC, 2011; for meta-analytic reviews see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014).

Accordingly, the assumption of organizations of connecting high pay levels and high pay raise for performance with employee performance and/or intention to stay (Kanter, 1987) should be revised, and other factors that lead to high performance, and an employee’s inclination to stay in the same organization should be investigated.

6.3. Distributive and procedural justice in relation to the outcomes

Distributive justice evidenced a positive association with intention to stay but was unrelated to job performance. Hence, the hypothesis $H_3$ (a) (Distributive justice is positively related with performance.) could not be supported within this study and had to be rejected, whereas $H_3$ (b) (Distributive justice is positively related with intention to stay in an organization.) received significant supportive evidence. The expectation of distributive justice to have positive relevance for the outcomes could partly be supported, so that $H_3$ (a) had to be rejected while the results support $H_3$ (b), which concerns the positive relation of distributive justice and intention to stay.

In accordance with this, the current study does only partly provide additional support for Adams’ equity theory (1963), which states that employees intend to establish a balance be-
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between their own and their colleague’s in- and outputs in relation to the organization. As reported by Adams, equity is based on the perceived ratio of inputs to outputs. It is thus believed that people are motivated to maintain a certain level of fairness. Thus, employee perceptions of justice and fairness in organizations are of large interest when looking at the various organizational behaviors (Greenberg, 1996, 2007). In the present study only marginal supporting evidence for distributive justice as moderator for the association of pay with the outcomes was found. Also, only partial support for Greenberg’s (1986b) and Nadiri and Tanova’s (2010) findings on links of organization’s distributional justice to performance and turnover intentions was found, as distributive justice evidenced a positive association with intention to stay but was unrelated to job performance. This means, that when employees perceived distributive justice, they were more inclined to stay in the present organization, while at the same time the perception of distributive justice did not motivate them to perform better or worse.

The finding regarding the partial support for the prediction of distributive justice can possibly be explained with a likely interactive effect between distributive and procedural justice (Brockner & Wiesenfeld, 1996). In fact, in an explorative attempt in this study, a positive correlation between the two justice variables was found ($r = .67$, $n = 255$, $p = .000$). As of Brockner and Wiesenfeld (1996) negative outcomes drive people to examine the procedure that caused the same negative outcomes. In turn, dissatisfactory procedures motivate people to examine the fairness of the resulted outcomes. Therefore, procedures as well as outcomes regulate how employees perceive fairness. This is why poor and unsatisfactory outcomes are prone to lead employees to distributive and procedural unfairness perceptions. The proposal for organizations hereby is, that to avoid such negative perceptions in employees, justice shall be equally part of procedures as well as of outcomes.

Procedural justice was positively related to both intention to stay and job performance. The hypotheses $H4 (a)$ and $b$ (Procedural justice is positively related with (a) performance and (b) intention to stay in an organization,) thus receive supportive evidence and were accepted. The perception of procedural justice had a direct effect on an employee’s inclination to perform better and to stay in the organization.

This finding supports the notion that the influence of an employee’s understanding of, and participation in the distributive procedures regarding pay factors in an organization, such as pay raise satisfaction (Folger & Konovsky, 1989), influence an employee’s justice perception (Leventhal, 1980; Thibaut & Walker, 1975; Leventhal, Karuza & Fry, 1980; Lind & Kulik,
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2009). Over all, meta-analysis suggests that procedural justice is more significant regarding pay factors like raises, organizational commitment, intention to stay, and heightened employee performance (Cohen-Charash & Spector, 2001; Colquitt, Conlon, Wesson, Porter & Ng, 2001; Maaniemi, 2013; Viswesvaran & Ones, 2002). Empirical evidence suggest that procedural justice carries greater weight than distributive justice (Colquitt & Greenberg, 2003; Colquitt, Greenberg & Zapata-Phelan, 2005). These findings within the current pay and justice literature can be supported with the here obtained results.

Overall, the impact of justice in an organization on employee outcomes (i.e. performance and intentions to stay) might be explained by using the expectancy theory of motivation. A person’s motivation is influenced by expectancy (e.g. believes of effort resulting in higher performance), and instrumentality (e.g. believes of higher performance giving resulting in superior rewards), which have a valence for employees (Robbins, 2001, p. 173). The rational behind this is that when procedural justice is perceived positively by employees through, for instance, participation in decision making processes such as pay-setting negotiations, employees are able to influence outcomes. Therefore, the here obtained results support the conception that procedural justice impacts employee behaviors such as performance and intentions to stay.

6.4. Transformational leadership in relation to the outcomes

Transformational leadership was positively related to both intention to stay and job performance. Resulting in H5 (a) and (b) (Transformational leadership is positively related with (a) performance and (b) intention to stay in an organization.) having been confirmed. This means that the more a superior was perceived to be a transformational leader, the more inclined were employees to perform better and to stay long-term in the organization.

An employee’s leader or direct supervisor is a mostly ubiquitous figure in an employee’s day-to-day work-life. Getting along with ones’ supervisor can affect an employee in numerous positive as well as negative ways, and change their perception of the work-environment in the organization. Thus, having transformational leadership skills is of great importance, so as to nurture the work relationship of supervisor and employee. A transformational leader is capable of managing their subordinates understanding and the meaning of actions and processes such as the pay setting (Densten, 2005; Salimäki, Hakonen & Heneman, 2009; Burke et al., 2006). It has been found that superiors add to their subordinate pay satisfaction (Salimäki, Hakonen & Heneman, 2009). Overall, the thorough research during the past decades on transformational leadership and its links outcomes such as performance
and intentions to stay have resulted in the notion that monetary incentives promote positive employee outcomes (Fang & Gerhart, 2012; Gerhart & Fang, 2014, for meta-analytic reviews see: Shaw & Gupta, 2015; Cerasoli, Nicklin & Ford, 2014; Garbers & Konradt, 2014).

The here found results support this previous research of that employees working for transformational leaders perform better, and this is most likely due to that transformational leaders attribute meaning to their employee’s pay raises, and in consequence they inspire employees to grow and to develop into high performers and future leaders (Bass & Riggio, 2006; Dvir, Eden, Avolio & Shamir, 2002). What is more, employees are significantly more likely to stay in an organization if they work for a leader who perceivably exhibits transformational leadership skills (Herman, Huang & Lam, 2013; Bycio, Hackett & Allen, 1995; Hytter, 2007; Kyndt, Dochy, Michielsen & Moeyaert, 2009; Butcher & Kritsonis, 2007; Howard, 1997; Howard & Gould, 2000; Taylor, 2004), which has also been supported with the here obtained results.

6.5. Justice and leadership as moderators of pay and outcomes

The results generally did not provide significant support for the perception that justice and leadership moderate the association between pay and employee outcomes, as only one of twelve tested interaction terms were significant. That is, transformational leadership moderated the association between pay level and job performance, in a way that a higher pay level was associated with better performance under the condition of high transformational leadership. This is why of the hypotheses $H6\ (a)\ (i)$, $(ii)$, and $(iii)$, as well as $(b)\ (i)$, $(ii)$, and $(iii)$ ($The\ relation\ of\ pay\ raise\ with\ (a)\ performance\ and\ (b)\ intention\ to\ stay\ in\ an\ organization\ is\ stronger\ if\ (i)\ distributive\ justice,\ (ii)\ procedural\ justice\ and\ (iii)\ transformational\ leadership\ are\ high.$), and $H7\ (a)\ (i)$, and $(ii)$, as well as $(b)\ (i)$, $(ii)$, and $(iii)$ ($The\ relation\ of\ pay\ level\ with\ (a)\ performance\ and\ (b)\ intention\ to\ stay\ in\ an\ organization\ is\ stronger\ if\ (i)\ distributive\ justice\ and\ (ii)\ procedural\ justice\ and\ (iii)\ transformational\ leadership\ are\ high.$) could not be supported. Only the interaction model related to $H7\ (a)\ (iii)$ ($The\ relation\ of\ pay\ level\ with\ (a)\ performance\ is\ stronger\ if\ (iii)\ transformational\ leadership\ is\ high.$) resulted to be significant. On the whole, it may be said that in this study transformational leadership was found to moderate the relation between pay level and performance. Nonetheless, this interaction should be interpreted with caution, because, as can be seen in figure 2., there was a tendency that higher pay level was associated with better performance when transformational leadership was high rather than low. However, neither the slope for high transformational leadership, nor the slope for low transformational leadership were significant, which is why the directional effect cannot be determined.
Regarding pay raise, previous findings suggested a positive relationship between employee perceptions of pay raise and both (1) pay satisfaction (Heneman, Greenberger & Strasser, 1988; Huber, Seybolt & Venemon, 1992; Williams, McDaniel & Nguyen, 2006) and (2) job satisfaction (Kopelman, 1976). Both of which are related to intentions of staying or leaving an organization. Findings like these could not be supported with this study.

The here obtained results suggest that neither justice nor leadership moderate the relationship of pay and employee performance or intention to stay. While a moderator is often-times used to further investigate and stabilize an inconsistent relationship between two variables there was no positive alteration of the non-significant relation of the here investigated pay variables and outcomes variables.

However, there was a marginally significant result found in the interaction model of transformational leadership, pay level and employee performance. When it comes to leadership styles, transformational leadership and transformational leadership characteristics have repeatedly been found to distinguish themselves when it comes to increasing performance (Bass & Riggio, 2006; Dvir, Eden, Avolio & Shamir, 2002; Hytter, 2007; Kyndt, Dochy, Michielsen & Moeyaert, 2009; Butcher & Kritsonis, 2007; Howard, 1997; Howard & Gould, 2000; Taylor, 2004; for a meta analytic review see: Margolis, Elfenbein & Walsh, 2007). As leadership is such a ubiquitous phenomenon that affects an employee’s day-to-day work-life the moderating effect found in this relationship is more than reasonable and supports the mentioned previous findings. Nevertheless, a higher pay level in this study was only associated with better performance under the condition of high transformational leadership; and when transformational leadership is low, a higher pay level is associated with lower performance.

All in all, in relation to the twelve interaction models, only one of them resulted in significant results, which is why there is no support for the conception of justice and/or leadership being key moderators of the association between pay and employee outcomes (for a meta-analytic review see: Margolis, Elfenbein & Walsh, 2007; Cohen-Charash & Spector, 2001).

6.6. Limitations and opportunities for future research

The present findings have several implications for future research which are mostly also related to the limitations of this study. In the present study only data from one department of one organization was analyzed resulting in a homogenous sample of white-collar workers. What is more, the data was obtained in the specific cultural context of Sweden. Cross-
Cultural and cross-organizational data on the matter is proposed for future research, so as to achieve generalizability of the findings on pay and employee behaviors (Trompenaars & Hampden-Turner, 2011).

Another limitation of this study implies causality, as the current data is cross-sectional and thus no clear response about the cause-and-effect relation can be determined (Institute of Work & Health, 2009). There is a need for longitudinal studies that investigate the effects of pay, the current moderators, as well as outcomes. This additional evidence may help to fortify the here obtained results (Spector, 1987).

And last, the participants responded to an online questionnaire which was a self-report, and which is liable to methodological bias (Conway & Lance, 2010). Self-reports, that are liable to exterior factors and personal traits, may be supported by additional, recorded information, e.g. recorded performance reviews or pay records. To control for this in the current study, it was possible to obtain recorded data for some of the investigated variables. Amongst them were an employee’s pay level, which was asked for in the survey and given to the research team from the recorded archive, plus the pay raise in percentage, which was then calculated on the base of this data. While it was possible to obtain some data from recorded archives in this study it would be good to have more such recorded data in future research if possible so as to control for methodological biases.

6.7. Conclusions

After all, the initial question for this paper: Does pay account for employee performance and intention to stay? could be resolved. As of the findings from this research, pay level and pay raise are not as essential for employee outcomes, such as high performance and intention to stay, as assumed. Rather the direct association of justice and/or leadership has an overall effect on significantly explained variance in relation to the outcomes. Also, high age was found to be positively related to intentions to stay in an organization. However, all interaction results taken together did not support the expected moderating effect on the relation of pay and the here investigated outcomes.

The present findings lead to the conclusion that an organization might benefit more by stressing factors such as justice and leadership in order to motivate their employees to perform better, and to stay in their organization in the long run, instead of purely looking at pay factors. Nonetheless, it should be mentioned that in other investigations pay has been found
to play an important part in motivating employee behaviors, which is why it should not be discarded as important factor in the equation to obtain positive employee outcomes.
7 Erklärung zur Masterarbeit

Hiermit erkläre ich, dass ich die Masterarbeit selbstständig verfasst habe, und keine anderen als die angegebenen Quellen und Hilfsmittel benutzt habe. Zudem wurden alle aus fremden Quellen direkt oder indirekt übernommenen Gedankengüter als solche kenntlich gemacht.

Die Arbeit wurde in keinem anderen Prüfungsamt in gleicher oder vergleichbarer Form vorgelegt und wurde durch den Prüfungsausschuss der Psychologischen Fakultät der Universität Trier genehmigt. Sie wurde bisher nicht veröffentlicht.

8 Declaration of Independency

I hereby declare that I have written this master’s thesis independently, and that I have not used any sources other than those specified. In addition, all ideas, taken directly or indirectly from other sources have been identified as such.

This work was not been presented in the same or comparable form and was approved by the examination board of the Psychological Faculty of the University of Trier. It has not been published.

19.09.2017
Datum

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