1995

When accuracy is not enough: The moderate effect of perceived appraisal use

M J Vest
Dow Scott, Loyola University Chicago
K Tarnoff

Available at: https://works.bepress.com/dow_scott/40/
WHEN ACCURACY IS NOT ENOUGH: THE MODERATING EFFECT OF PERCEIVED APPRAISAL USE

Michael J. Vest
University of Southern Mississippi

K. Dow Scott
Karen A. Tarnoff
Virginia Polytechnic Institute and State University

ABSTRACT: It is hypothesized that perceived appraisal use in making pay related decisions will moderate the relationship between instrumentality beliefs and appraisal accuracy related variables. Perceived appraisal use was found to moderate the relationship between instrumentality beliefs and perceived appraisal accuracy, supervisor appraisal behavior, and supervisor knowledge of performance.

Merit pay programs attempt to improve performance by making pay increases contingent upon performance. These programs typically consist of a formal performance appraisal system that yields a performance appraisal rating and some mechanism for allocating pay increases based on performance. Pay increases are generally allocated as a percentage of pay level based on performance appraisal rating and sometimes position in pay range. Consequently, the ability to accurately measure performance is a key requirement for successful merit pay programs (e.g., Lawler, 1981; Winstanley, 1975).

While organizations attempt to develop and implement appraisal systems that accurately evaluate performance, there is no guarantee employees will perceive appraisal ratings to be accurate. As noted by Dreher (1981) in a discussion of pay system administration, there may be little or no relationship between actual treatment and employee perceptions of treatment. Employee perceptions influence employee behav-

Address correspondence to Michael J. Vest, Ph.D., Department of Management, College of Business, University of Southern Mississippi, Box 5077, Hattiesburg, MS 39406-5077.
ior and as a result, perceptions concerning appraisal accuracy are critical to successful merit pay programs.

The conceptual merit pay literature suggests individuals who believe appraisals are inaccurate are less likely to believe pay is tied to performance (Lawler, 1981; Winstanley, 1975). The belief that pay is tied to performance, commonly known as instrumentality beliefs, has its origin in expectancy theory and is frequently cited as an essential requirement for successful merit pay programs (e.g., Lawler, 1971; Vroom, 1964). In other words, individuals must believe pay is tied to performance if merit pay is to elicit improved job performance.

Limited and mixed empirical support is present for a relationship between perceived appraisal accuracy and instrumentality beliefs. Vest, Hills, and Scott (1989) found a significant positive relationship between perceived appraisal accuracy and instrumentality beliefs. However, Miceli, Jung, Near, and Greenberger (1991) found no significant relationship between effort-reward consonance (instrumentality beliefs) and rating inadequacy. One possible explanation for the inconsistent findings with respect to the relationship between perceived appraisal accuracy and instrumentality beliefs is that in some circumstances, employees may not believe appraisal ratings are used to make pay related decisions.

It is suggested here that while employees must perceive their appraisal rating to be accurate, they must also believe appraisal ratings are used in making pay related decisions if perceived appraisal accuracy is to have a significant influence on instrumentality beliefs. The relationship of perceived appraisal accuracy to instrumentality beliefs should be stronger among individuals who believe appraisal ratings are used in making pay related decisions than among individuals who believe appraisal ratings are not used in making such decisions. If individuals do not believe appraisal ratings are used, they will not attribute their merit pay increase to the appraisal system. As a consequence, they will be less likely to associate appraisal accuracy with instrumentality beliefs.

Stone (1978, p. 26) defines a moderator variable as, "... any variable which when systematically varied causes the relationship between two other variables to change." As defined by Stone (1978) and suggested above, perceived appraisal use (either high or low) should moderate the relationship between perceived appraisal accuracy and instrumentality beliefs. A similar argument can be made with respect to the role of perceived appraisal use in moderating the relationship between instrumentality beliefs and other appraisal accuracy related variables.

A review of the performance appraisal literature suggests numerous variables that may influence employee perceptions that appraisals are accurate. Two of these variables are supervisor appraisal behavior and
supervisor knowledge of performance. Supervisor appraisal behavior refers to issues such as application of consistent performance standards and supervisor bias. Supervisor knowledge of performance addresses issues such as supervisor knowledge of the job and whether the supervisor actually observes job performance. Support is present in the literature for a positive relationship between outcome contingency (instrumentality beliefs) and both supervisor appraisal behavior and supervisor knowledge of performance (Folger & Konovsky, 1989).

As with perceived appraisal accuracy above, the relationship of supervisor appraisal behavior and supervisor knowledge of performance to instrumentality beliefs should be stronger among individuals who believe appraisal ratings are used in making pay related decisions than among individuals who believe appraisal ratings are not used in making such decisions. If individuals do not believe appraisal ratings are used, they will be less likely to associate appraisal accuracy related variables, i.e. supervisor appraisal behavior and supervisor knowledge of performance, with instrumentality beliefs.

No studies were identified which investigated the role of perceived appraisal use as a moderator of the relationship between appraisal accuracy related variables and instrumentality beliefs. However, one related study was identified which investigated the impact of perceived importance of performance review results to career on perceptions of appraisal process and outcome variables. Burke, Weitzel, and Weir (1978) found perceived importance of appraisal results was significantly related to appraisal outcome and process variables such as degree of influence in planning self-development, degree to which job problems are cleared up, motivation to improve performance, and perceived value of performance review interviews.

The purpose of this research is to investigate the role of perceived appraisal use in making pay related decisions as a moderator of the relationship between instrumentality beliefs and appraisal accuracy related variables in a merit pay environment. More specifically, this research tests the following hypotheses: The relationship between instrumentality beliefs and perceived appraisal accuracy (H1), supervisor appraisal behavior (H2), and supervisor knowledge of performance (H3) will be stronger among individuals who believe appraisal ratings are utilized in making pay related decisions than among individuals who do not believe appraisal ratings are used in making such decisions.

Study findings will provide insight into the relationship between perceived appraisal accuracy and instrumentality beliefs as well as the effective use of appraisal ratings in merit pay systems. Support for the proposed hypotheses will also argue for the importance of both using appraisal ratings in pay related decisions and thoroughly explaining to employees how appraisal ratings are used in making such decisions. Pay
level, performance appraisal rating, merit pay increase, gender, level of education, and tenure are used as control variables in this research because of their potential influence on instrumentality beliefs or appraisal accuracy related variables. Merit pay increases (Folger & Konovsky, 1989), tenure (Oliver, 1977), and education (Goodman & Moore, 1976) have been found related to instrumentality beliefs. Dreher (1981) found appraisal ratings, gender, and pay level to be related to pay level satisfaction which has been shown to be related to instrumentality beliefs (Heneman, Greenberger, & Strasser, 1988).

METHOD

Setting and Sample

The research site for this study is a large manufacturing and retail organization that provides farm products and services in both wholesale and retail markets. Employees at all levels in this organization participate in a merit pay plan. Performance evaluations are conducted annually on the individual's anniversary date with merit pay increases awarded following the performance evaluation. Questionnaires were provided to the organization and each month, over a three-month period, the personnel department distributed questionnaires to employees who had recently received their anniversary date performance appraisal rating.

Each employee received a cover letter from the organization endorsing the project, a questionnaire with instructions, and a business reply envelop to return the completed survey instrument directly to the university. Participation was not mandatory and employees were required to complete the questionnaire on their own time. Respondents were asked to include their social security number in order to match questionnaires to demographic data that was obtained directly from the organization. Of the 943 questionnaires distributed, 393 or 42% were returned. Of these 393 questionnaires returned, 45 contained missing data and were not used in this research. This yields 348 usable questionnaires and a usable response rate of 37%.

A series of t-tests was run to detect any differences in attitudes between respondents who filled out the questionnaire completely and those who did not. No significant (.05 level) differences were detected. The research team did not have access to the organization to assess nonrespondent attitudes. Demographic data (pay level, tenure, gender, and race) were available for both respondents and nonrespondents and t-tests were again run to determine whether respondents differed from nonrespondents with respect to these demographic characteristics. Two
differences were identified. Nonrespondents on average had lower annual pay levels and shorter tenure than respondents. The average pay level of nonrespondents was 18,312.65 (SD = 7,781.87) while average tenure of nonrespondents was 9.16 years (SD = 8.77 years). Regression analysis indicates that pay level and tenure effects do not significantly change study results. This suggests that differences in respondent and nonrespondent tenure and pay level will not affect generalizability of study results. As noted above, the effect of both pay level and tenure is controlled for in this research. Demographic characteristics for the 348 respondents utilized in this research are summarized below.

Of the 348 respondents used in this research, 232 (66.7%) were male and 340 (97.7%) were white. Respondents ranged in age from 18 to 64 with an average age of 39.1 years (SD = 10.7 years). Tenure ranged from one to 46 years with an average tenure of 11.44 years (SD = 9.21 years). With respect to education, 10 (2.9%) respondents had an 8th grade education, 14 (4.0%) had some high school, 121 (34.8%) had a high school diploma, 98 (28.2%) had some college or technical school, 96 (27.6%) had a college degree, and nine (2.6%) had an advanced degree.

**Measures**

Perceptual measures utilized in this research include instrumentality beliefs (four items), appraisal accuracy (four items), supervisor appraisal behavior (seven items), supervisor knowledge of performance (five items), and appraisal use (three items). The 23 items comprising these measures were subjected to principal components factor analysis with both varimax and oblique rotations to investigate the factor structure of the proposed measures. All items loaded as anticipated with both varimax and oblique rotations. Results of the varimax rotation are reported. Factor 1 contained the seven supervisor appraisal behavior items (eigenvalue = 10.51, % variance explained = 45.7), Factor 2 contained the four appraisal rating accuracy items (eigenvalue = 3.05, % variance explained = 13.3), and Factor 3 contained the five supervisor knowledge of performance items (eigenvalue = 1.83, % variance explained = 7.9). The four instrumentality beliefs items loaded on Factor 4 (eigenvalue = 1.50, % variance explained = 6.5) while Factor 5 contained the three appraisal use items (eigenvalue = 1.16, % variance explained = 5.0). Total variance explained for all five factors was 78.4%.

All perceptual measures consist of Likert-type items with six response categories ranging from strongly disagree (scored 1) to strongly agree (scored 6). Scale scores for all perceptual measures were obtained by taking the average of all scale items. Unless otherwise noted, all measures were developed for this research. Perceptual and control variable measures are summarized below.
Instrumentality Beliefs. Instrumentality beliefs was measured using four items (Cronbach $\alpha = .92$). Scale items include: “This organization gives merit pay increases on the basis of job performance.” “In this organization, the best workers get the highest merit pay increases,” “Merit pay increases are based on an individual's job performance,” and “I believe that merit pay increases are tied to performance.”

Appraisal Accuracy. Appraisal accuracy was measured with four items (Cronbach $\alpha = .96$). Scale items include: “My last performance appraisal was accurate,” “My last performance appraisal accurately reflected my performance for the entire rating period,” “My last performance appraisal accurately described my strengths and weaknesses,” and “My last performance appraisal rating accurately measured my true performance.”

Supervisor Appraisal Behavior. The supervisor appraisal behavior measure consists of seven items (Cronbach $\alpha = .92$). Supervisor appraisal behavior and supervisor knowledge of performance items were adapted in part from the work of Folger and Konovsky (1989). Scale items include: “My supervisor allowed personal motives or biases to influence the evaluation of my performance,” “My supervisor used fair and objective standards in evaluating my performance,” “My supervisor was honest and ethical in dealing with me when he/she appraised my performance,” “My supervisor sought my input prior to conducting my performance appraisal,” “My supervisor used consistent standards in evaluating my performance,” “My supervisor showed a real interest in trying to be fair when evaluating my performance,” and “My supervisor understands that my job performance may be affected by factors which are beyond my control and rates my performance accordingly.”

Supervisor Knowledge of Performance. Supervisor knowledge of performance was measured using five items (Cronbach $\alpha = .90$). Scale items include: “My supervisor understands what it takes to perform my job well,” “My supervisor regularly observes my work performance,” “My supervisor knows my job very well,” “My supervisor has no idea what it takes to perform my job well,” and “My supervisor became familiar with my performance prior to conducting my evaluation.”

Appraisal Use. Appraisal use contained three items (Cronbach $\alpha = .89$). Scale items include: “Performance appraisal results are an important factor in determining size of pay increases,” “Performance appraisal results are an important factor in determining future promotional opportunities,” and “Performance appraisal results are an important factor in determining career development activities.”

Control Variables. Control variables utilized in this research include pay level, performance appraisal rating, merit pay increase, gender, level of
education, and tenure. Pay level is monthly pay level and merit pay increase is the percent pay increase. Performance appraisal ratings range along the continuum: unsatisfactory (scored 1), needs improvement (scored 2), fully competent (scored 3), and outstanding (scored 4). Level of education was measured using six levels including: 8th Grade (scored 1), Some High School (scored 2), High School Graduate (scored 3), Some College/Technical School (scored 4), College Degree, B.S. (scored 5), and Advanced College Degree (scored 6). Tenure refers to number of years with the organization. For gender, males were coded "0" and females were coded "1".

Analysis

Means, standard deviations, scale reliabilities (Cronbach a), and zero-order correlations were calculated for study variables. Three hierarchical regression models were run to test the proposed hypotheses, i.e. one model for each hypothesis. For each model, control variables were entered as a group on step 1, the appraisal accuracy related variable (either appraisal accuracy, supervisor appraisal behavior, or supervisor knowledge of performance) was entered on step 2, appraisal use was entered on step 3, and the appraisal accuracy related variable × appraisal use interaction term was entered on step 4. The $R^2$ Change for each step was calculated with particular attention paid to the appraisal accuracy related variable × appraisal use interaction term entered last on step 4. A significant $R^2$ Change for the interaction term provides support for the proposed hypothesis.

Pearson zero-order correlations were also calculated to assess the relationship of instrumentality beliefs to appraisal accuracy, supervisor appraisal behavior, and supervisor knowledge of performance within both the low and high use groups. For the purpose of these correlations and the illustrative graphs, individuals were classified as either high perceived appraisal use or low perceived appraisal use using the mean (mean = 4.14) of the perceived appraisal use variable. Respondents greater than or equal to the mean were considered high use ($n = 175$) while respondents less than the mean were considered low use ($n = 173$).

RESULTS

Means, standard deviations, scale reliabilities, and zero-order correlations among study variables are summarized in Table 1. Instrumentality beliefs was significantly related (zero-order) to perceived appraisal accuracy ($r = .36, p < .001$), supervisor appraisal behavior ($r = .33, p <$
### Table 1

Means, Standard Deviations, Scale Reliabilities, and Zero-Order Correlations Among Study Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Instru Beliefs</td>
<td>3.59</td>
<td>1.34</td>
<td>(.92)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Appraisal Accuracy</td>
<td>4.25</td>
<td>1.17</td>
<td>.36</td>
<td>(.96)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Appraisal Behavior</td>
<td>4.58</td>
<td>1.01</td>
<td>.33</td>
<td>.66</td>
<td>(.92)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Knowledge Perform</td>
<td>4.26</td>
<td>1.25</td>
<td>.32</td>
<td>.53</td>
<td>.63</td>
<td>(.90)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Appraisal Use</td>
<td>4.14</td>
<td>1.32</td>
<td>.50</td>
<td>.27</td>
<td>.23</td>
<td>.33</td>
<td>(.89)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Appraisal</td>
<td>3.03</td>
<td>.50</td>
<td>.09†</td>
<td>.32</td>
<td>.31</td>
<td>.18**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Pay Level</td>
<td>23719.97</td>
<td>11312.51</td>
<td>-.07</td>
<td>-.04</td>
<td>-.04</td>
<td>-.08†</td>
<td>-.10*</td>
<td>-.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Merit Pay Increase</td>
<td>.05</td>
<td>.02</td>
<td>.16**</td>
<td>.21</td>
<td>.23</td>
<td>.10*</td>
<td>.11*</td>
<td>.28</td>
<td>-.12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Gender</td>
<td>—</td>
<td>—</td>
<td>-.00</td>
<td>.10*</td>
<td>.09*</td>
<td>-.02</td>
<td>-.01</td>
<td>-.01</td>
<td>-.36</td>
<td>.17**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Education</td>
<td>3.81</td>
<td>1.06</td>
<td>-.15**</td>
<td>-.11*</td>
<td>-.04</td>
<td>-.08†</td>
<td>-.07†</td>
<td>.00</td>
<td>.54</td>
<td>.01</td>
<td>-.08†</td>
<td></td>
</tr>
<tr>
<td>(11) Tenure</td>
<td>11.44</td>
<td>9.22</td>
<td>-.02</td>
<td>.05</td>
<td>.02</td>
<td>-.02</td>
<td>-.13**</td>
<td>-.07†</td>
<td>.41</td>
<td>-.25</td>
<td>-.15**</td>
<td>-.08†</td>
</tr>
</tbody>
</table>

**Note:** All correlations > .18 are significant at $p < .001$ level. Cronbach $\alpha$ in parentheses along diagonal.  
* $p < .05$; ** $p < .01$; † $p < .10$
supervisor knowledge of performance \( (r = .32, p < .001) \), and perceived appraisal use \( (r = .50, p < .001) \). Both supervisor appraisal behavior \( (r = .66, p < .001) \) and supervisor knowledge of performance \( (r = .53, p < .001) \) were significantly related to perceived appraisal accuracy. Results of hypotheses are presented below.

Support was found for Hypothesis H1. Hierarchical regression results for all proposed hypotheses are summarized in Table 2. The perceived appraisal accuracy × appraisal use interaction term is significant \( (R^2 \text{ Change} = .0216, F = 10.98, \text{Sig} F = .0010) \). The zero-order correlation between perceived appraisal accuracy and instrumentality beliefs is \( r = .19, p < .01 \) for the low appraisal use group and \( r = .44, p < .001 \) for the high use group. The interaction effect for all three hypotheses is presented graphically in Figure 1. Consistent with regression and correlation results, the graph suggests that while appraisal accuracy is related to instrumentality beliefs in both the low and high use groups, the relationship is much stronger in the high use group. It is also significant to note that for virtually all levels of appraisal accuracy, instrumentality beliefs are higher in the high use group.

Support was also found for Hypothesis H2. The supervisor appraisal behavior × appraisal use interaction term is again significant \( (R^2 \text{ Change} = .0375, F = 19.33, \text{Sig} F = .0000) \). The zero-order correlation between supervisor appraisal behavior and instrumentality beliefs is \( r \)

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Hypothesis Test Regression Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Step</td>
</tr>
<tr>
<td>H1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>H2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>H3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Dependent variable is instrumentality beliefs. Control variables include pay level, appraisal rating, merit pay increase, gender, education, and tenure.
Figure 1
Appraisal Accuracy by Appraisal Use Interaction

= .10, p < .10 for the low appraisal use group and r = .44, p < .001 for the high use group. Inspection of the graph in Figure 2 confirms that for the low use group, supervisor appraisal behavior has little impact on instrumentality beliefs. However, for the high use group, more appropriate appraisal behavior is associated with stronger instrumentality beliefs.

Finally, Hypothesis H3 received support as well. The supervisor knowledge of performance × appraisal use interaction is again significant (R² Change = .0350, F = 17.49, Sig F = .0000). The zero-order correlation between supervisor knowledge of performance and instrumentality beliefs is r = .16, p < .05 in the low use group and r = .34, p < .001 in the high use group. As with appraisal accuracy and supervisor appraisal behavior, the relationship between supervisor knowledge of performance and instrumentality beliefs is much stronger in the high use group. It is again significant to note that instrumentality beliefs are higher for all levels of supervisor knowledge of performance in the high use group (Figure 3).
Figure 2
Supervisor Appraisal Behavior by Appraisal Use Interaction

Supervisor Knowledge of Performance by Appraisal Use Interaction
DISCUSSION

Results provide insight into why appraisal accuracy related variables may explain little or no variance in variables such as instrumentality beliefs. Support was found for the importance of perceived appraisal use as a moderator of the relationship between instrumentality beliefs and appraisal accuracy related variables. Findings suggest there is likely to be little or no relationship between instrumentality beliefs and appraisal accuracy related variables in situations where individuals do not believe appraisal ratings are used in making pay related decisions.

However, appraisal accuracy related variables are likely to be a strong influence in situations where individuals believe appraisal ratings are used in making pay related decisions. Thus, findings suggest perceived appraisal accuracy is a necessary but not sufficient condition for strong instrumentality beliefs. Individuals must also be convinced that appraisals are used in making pay related decisions.

Guide charts are one mechanism that can be utilized to link performance ratings to merit increase decisions. However, some guide charts award pay increases based on both performance and some other factor such as position in pay range. The use of factors other than performance in guide charts may obfuscate the relationship between performance and merit pay increases and ultimately weaken instrumentality beliefs.

Whether through the use of guide charts or some other mechanism, organizations must thoroughly explain how pay increases are determined with special emphasis on the role of performance appraisals. Possible avenues of communication include formal training sessions, appraisal interview sessions, or initial orientation sessions where company policies and procedures are explained to new employees. Orientation sessions may be particularly useful as the company can get its message across before new employees develop incorrect perceptions based on lack of information or incorrect information from other sources such as a disgruntled employee.

Also from an organizational perspective, Dreher (1981) suggests that organizations use attitude surveys to assess employee reactions to pay systems. Study findings suggest that perceived appraisal use should be added to the list of variables surveyed. Perceptions concerning performance appraisal use would be useful in both planning a merit pay program or in diagnosing an unsuccessful merit pay program.

Research on performance appraisal has evolved from a focus on the psychometric properties of various appraisal instruments to a more cognitive approach which addresses issues such as procedural and distributive justice in appraisal systems. Distributive justice refers to the fairness of appraisals while procedural justice refers to the fairness of the
process through which appraisals are obtained. Study findings suggest that both researchers and organizations should concentrate not only on the fairness of a specific activity such as performance appraisal, but also on how performance appraisal relates to other activities such as compensation. For example, a better understanding of the performance appraisal process might be obtained if performance appraisal is investigated as part of the process through which pay increases are determined rather than as an isolated process. The context in which an activity takes place is important.

Study results should be viewed in the context of three potential limitations. First, the external validity of study results is a matter to be resolved by future research. No prior studies were identified which investigated the role of perceived appraisal use as a moderator. Second, the lack of longitudinal data makes determination of causality impossible. While inferences may be drawn with respect to study results, no definitive statements with respect to causality can be made. Third, common methods bias is a potential problem in research of this type. Podsakoff and Organ (1986) suggest that Harman’s one-factor test is one possible indicator of common methods bias. According to this approach, common methods bias exists if factor analysis yields a single factor or one general factor emerges which accounts for a majority of variance. As noted in the measures section, factor analysis yielded five factors and all items loaded as anticipated. Thus, while common methods bias cannot be ruled out, it is argued that results are due primarily to the organization and not the research method employed.

In conclusion, findings support the call for more research on perceptual variables in pay systems (Heneman et al., 1988). Specifically, future research should investigate the importance of perceived appraisal use and accuracy to other pay related variables such as merit increase satisfaction or pay level satisfaction. In addition, future research should look at other variables that may moderate reactions to merit pay plans. One possible variable might be expectations with respect to performance appraisals or merit pay increases. A better understanding of employee reactions to performance appraisal and merit pay systems is needed if merit pay programs are to be used successfully.

REFERENCES


