

Pay, recognition, trust and employee outcomes in the Australian Public Service: direct and indirect effects

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Abstract

For government managers, having a committed and loyal workforce to deliver public service is a highly attractive idea. To achieve this goal, many government agencies offer rewards, both financial and nonfinancial. The former includes pay and the latter includes social recognition. The widespread application of these rewards in the public sector raises two pressing questions. First, which reward – pay or social recognition – is more effective in improving employee outcomes? Second, how do they shape employee outcomes? This research on Australian Public Service (APS) employees aims to address the above questions. Using a random sample of the Australian Public Service Commission's annual *State of the Service Employee Survey* (N = 2,760), this study examines the relationships between positive perceptions of two rewards (pay and social recognition) and two employee outcomes (organizational commitment and turnover intention). The research identifies two pathways for the reward-outcome relationship: direct and indirect. Perceptions of fair pay and satisfaction with recognition received are found to raise organizational commitment directly and reduce turnover intention. The reward-outcome relationships are also partially mediated by employees' perceptions of trust in the performance management system. Positive attitudes towards pay and recognition received are found to increase trust in the system, and in turn raise organizational commitment and reduce turnover intention. This suggests that the successful introduction of rewards to improve employee outcomes partly lies with the capacity of the performance management system in winning the trust of employees.

Introduction

This study examines the direct and indirect ways in which Australian Public Service (APS) employees' perceptions of rewards affect their commitment to their organization and their decision to leave or stay in their organization. Both financial rewards, such as pay, and nonfinancial rewards, such as social recognition, are now offered in government agencies as a means to manage employee performance. Their appeal is largely based on the assumption that they can foster desirable employee outcomes.

Given their popularity, an empirical test of this assumption is urgent, particularly in light of two issues. The first issue involves turnover in the APS. Resignations have remained the most common separation type in the APS for more than a decade from 1997/98 to 2011/12 (APSC 2012). According to the Australian Public Service Employment Database, more than 5,400 employees resigned from the APS during the period of 2011/12. This represents more than 3 percent of the APS workforce. Employee turnover is costly for the government. In addition to the financial costs incurred in recruitment and training, there are human capital issues to consider, such as the loss of knowledge and talent possessed by departing employees, the loss of morale among the remaining employees, and disruption to service quality (Gomez-Meija, Balkin and Cardy 2001; Griffith and Hom 1994; Lee, Hsu and

Lien 2006). A majority of the resignations in the APS have occurred at classification levels that are considered to be vital for service delivery – the middle and upper middle sections of the APS workforce. In 2011/12, most resignations were at APS5-6 level or senior administrative, technical, project and service positions (37 percent), and they were followed by APS3-4 level or general administrative, technical, project and service positions, including graduate positions (34 percent), and finally, executive level 1 and 2 or middle management positions (22 percent). Clearly better designed human resource management (HRM) strategies are required to better manage turnover in the APS, one of which would focus on rewards.

The second issue deals with the efficacy of rewards in fostering desirable outcomes. Pay and social recognition are likely to have differential effects on employee outcomes (Stajkovic and Luthans 2001). Yet, most empirical research on the effects of rewards have focused on financial rewards, especially pay, and given less emphasis to nonfinancial rewards such as recognition (Grant and Shin 2012). Studies have indicated that, compared to private sector employees, government employees generally place less importance on financial rewards, and more importance on intrinsic rewards (Perry 1996; Frank and Lewis 2004; Taylor and Taylor 2011). Although recognition had been raised as an effective means for eliciting positive outcomes (Herzberg 1966; Stajkovic and Luthans 2001), few public administration studies have tested its impact on government employees, especially when compared to pay. Further, we do not fully understand the organizational contexts that link rewards to positive employee outcomes. The mechanisms through which the receipt of different rewards leads to a desired outcome are not well understood.

It is the aim of this research to examine the relationships between employee perceptions of two rewards (pay and social recognition) and two employee outcomes (organizational commitment and turnover intention). Organizational commitment and turnover intention are critical predictors of employee turnover (Griffeth, Hom and Gaertner 2000; Loi, Ngo and Foley 2006). Public administration research regards turnover intention as a surrogate for actual turnover (Bertelli 2007; Pitts, Marvel and Fernandez 2011) because it captures employee perceptions and evaluations of job alternatives (Allen, Shore and Griffeth 2003; Mobley *et al.* 1979). Specifically, this research addresses two questions. First, which reward – pay or social recognition – is more effective at improving these outcomes among APS employees? Second, how do they shape employee outcomes?

Using a random sample of the Australian Public Service Commission's (APSC) annual *State of the Service Employee Survey* (N = 2,760), this research tests two pathways in the relationships between employees' positive perceptions of rewards (pay satisfaction and recognition satisfaction) and outcomes (organizational commitment and turnover intention). The first is the direct pathway. This study draws from the organizational justice literature to examine the direct association between these rewards and outcomes. Favourable perceptions of pay and recognition are expected to directly raise organizational commitment and reduce turnover intention. The second is the indirect pathway. This research draws from the social exchange literature to evaluate whether the reward-outcome relationship is partially mediated by employees' perceptions of trust in their agency's performance management system. When employees perceive that their organization is sensitive and fair to their needs for pay and recognition, their trust in their agency's performance management system is likely to increase, which in turn is likely to raise their commitment to their organization and decrease their intention to leave the organization. The next section presents the research framework that will be used to test these propositions.

Theoretical framework

Pay and recognition – Direct effects

The direct effects of pay and recognition on two outcomes, organizational commitment and turnover intention, are supported by the organizational justice literature. Organizational justice refers to ‘perceptions of fairness in decision-making and resource allocation environments’ (Colquitt and Rodell 2011:1183). Discussions of organizational justice usually draw upon equity theory to emphasise the importance of fair treatment of employees. Employees seek to maintain equity between the ratios of the inputs that they bring to a job (e.g., experience and effort) and the outcomes that they receive from it (e.g., pay) against the corresponding ratios of relevant comparators (e.g., work colleagues). Equal ratios contribute to perceptions of fairness, which lead to favourable work outcomes (Adams 1965; Choi and Chen 2007). Several empirical studies, albeit largely private sector studies, have shown that organizational justice encourages desirable work attitudes, such as organizational commitment, and decreases undesirable attitudes, such as turnover intention (Choi and Chen 2007; Meierhans, Rietmann and Jonas 2008).

Since organizational commitment is based on reciprocity, employees are likely to offer their commitment to their organization in exchange for the organization having looked after their interests (Angle and Perry 1983). Kuvaas (2006) describes organizational commitment as an exchange of loyalty and effort for material and social rewards. This implies that a direct association exists between satisfaction of rewards and organizational commitment. The first hypothesis on organizational commitment is subdivided into two to differentiate between pay and recognition:

H1a: Pay satisfaction is directly and positively related to organizational commitment.

H1b: Recognition satisfaction is directly and positively related to organizational commitment.

The closer affective bond with the organization that was described above implies that employees are less likely to consider leaving their organization. This in turn suggests a direct inverse relationship between satisfaction of rewards and turnover intention. Pay dissatisfaction is one of the main antecedents of turnover intention (Blau and Kahn 1981; Lambert, Hogan and Barton 2001). A recent study on government employees by Pitts, Marvel and Fernandez (2011) found an inverse relationship between pay satisfaction and turnover intention. The second hypothesis is also divided into two parts:

H2a: Pay satisfaction is directly and negatively related to turnover intention.

H2b: Recognition satisfaction is directly and negatively related to turnover intention.

Pay or recognition – Which matters more?

As a financial reward, pay is popular because it offers both instrumental and symbolic benefits to employees. When viewed instrumentally, money can be exchanged for most goods, services, and privileges (Bandura 1986; Stajkovic and Luthans 1997) and, in this way, provides outcomes that satisfy individual physiological and psychological needs. When viewed symbolically, the receipt of pay can indicate achievement and acknowledgement for the employees effort. Money can signify a person's standing regarding psychological aspirations for valued and desired aspects of social life, such as status and power (Stajkovic and Luthans 2001).

The calculative view of organizational commitment highlights the appeal of pay as a reward. Here, employees are committed because of the accumulation of “side bets” or anything of value that they have “invested” (e.g., money and time) into their organization, which would be lost at some perceived cost to them if they leave the organization (Becker 1960). This perceived cost can be instrumental (e.g., loss of income or a level of pay that cannot be matched elsewhere) or symbolic (e.g., loss of high status associated with the job).

Social recognition, as a nonfinancial reward, is also likely to be valued by government employees. Many comparative studies on the reward preferences of government employees and private sector employees tend to report that government employees prefer intrinsic rewards whereas private sector employees prefer extrinsic rewards (Houston 2000; Frank and Lewis 2004; Feeney 2007). Regardless of whether these trends are due to fewer opportunities for financial rewards in the public sector, the fact that they are observed suggest that government employees could be more responsive to nonfinancial than financial rewards (Heinrich 2007; Perry and Wise 1990; Taylor and Taylor 2011). Romzek’s (1985) survey of American government employees was one of the few to examine the direct effects of recognition on outcomes. She found that recognition positively influenced the respondent’s job involvement more strongly than job security. There is thus a possibility that positive perceptions of social recognition would show a stronger influence on employee outcomes than those on pay. This leads to the third hypothesis tested in this study which is again divided into two parts:

H3a: Recognition satisfaction has a stronger impact on turnover intention than pay satisfaction.

H3b: Recognition satisfaction has a stronger impact on organizational commitment than pay satisfaction.

Pay and recognition: Indirect effects

Social exchange theory suggests that employees’ perceptions of favourable treatment by their organization promote desirable employee outcomes by engendering trust in the organization. The nature of social exchanges demands the organization provide something of value to the employee to initiate or maintain the exchange (Cole et al. 2002). Economic exchanges provide the foundation for the relationship between the employee and the organization (Song, Tsui and Law 2009). Here, one exchanges work for pay. Employees form views about the fairness of these transactions. Organizations can build on this foundation to create social exchange relationships with the employees when the employees perceive that their organizations are looking after their interests. Both pay and recognition are reported to matter to public employees (Kernaghan 2001; Romzek 1985; Taylor and Taylor 2011). When employees perceive that their organization are sensitive and fair to their needs for these rewards, they are likely to view their social exchanges with the organization as more valuable, which can generate an obligation to reciprocate with behaviours that benefit the organization (Bolino and Turnley

2003; Organ 1988).

Trust is a critical component of the social exchange relationship (Blau 1964; Cropanzano and Mitchell 2005). In their review of the social exchange theory, Cropanzano and Mitchell (2005) noted the mediating role of trust as one of the operational elements in the exchange relationship. Perceptions of fair treatment by organizations increase employees' propensity to reciprocate through trust building. Conversely, those who perceive their relationship with their organization as an unfair social exchange will redefine the relationship as simply an economic exchange and place a limit on activities that benefit their organization (Cardona, Lawrence and Bentler 2004; Song, Tsui and Law 2009).

Trust is particularly critical for the effective implementation of performance management systems (Hartman and Slapnicar 2009). A 2004 OECD report emphasized the importance of introducing a performance pay scheme in an environment that supports a trust-based work relationship. A quasi experiment conducted by Mayer and Davis (1999) indicated that employees' trust in management rose in response to the implementation of a performance appraisal system that was perceived to be accurate. In their study of Indian government employees, Aryee et al. (2002) found that trust in the organization mediated the association between perceptions of justice and organizational outcomes, such as turnover intention. This implies that trust can provide a facilitating condition by which positive perceptions of rewards lead to desired outcomes (Dirks and Skarlicki 2004).

On this basis, the fourth and fifth hypotheses relate to the positive relationships between favourable perceptions of rewards (pay and recognition) and employee outcomes (organizational commitment and turnover intention) being partially mediated by perceptions of trust in the organization's performance management system. The fourth hypothesis concerns organizational commitment, as shown below:

- H4a: Pay satisfaction positively affects employees' trust judgements of their organization's performance management system, which in turn increase their organizational commitment.
- H4b: Recognition satisfaction positively affects employees' trust judgements of their organization's performance management system, which in turn increase their organizational commitment.

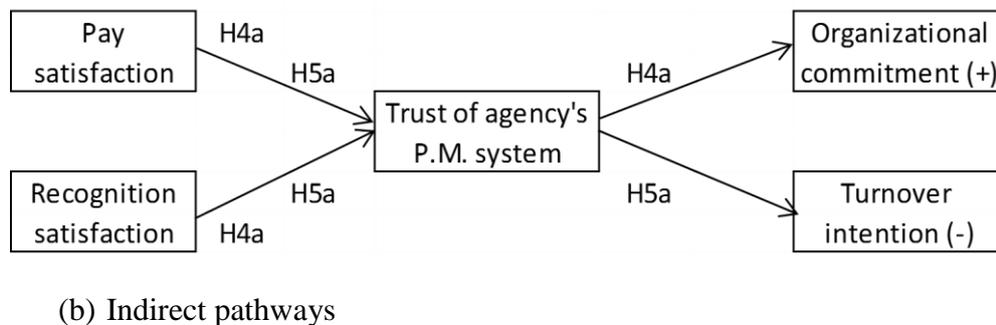
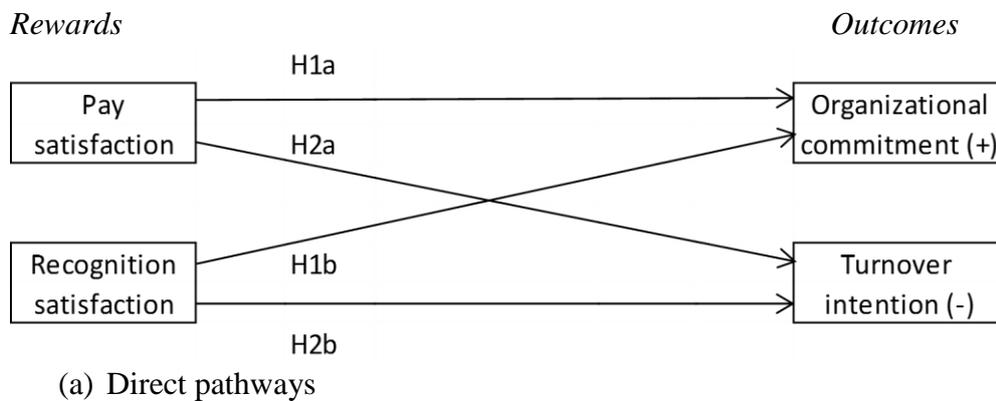
The fifth hypothesis concerns the partial mediating effect on turnover intention:

- H5a: Pay satisfaction positively affects employees' trust judgements of their organization's performance management system, which in turn reduce their turnover intention.
- H5b: Recognition satisfaction positively affects employees' trust judgements of their organization's performance management system, which in turn reduce their turnover intention.

In summary, this research explores two possible pathways for the reward-outcome relationship. The first is a direct pathway: satisfaction of pay and recognition received are hypothesized to directly raise organizational commitment and reduce turnover intention. The second is the indirect pathway or the partial mediating effect of trust in the performance management system: satisfaction with pay and recognition received are hypothesised to increase employees' trust of their organization's performance management system, which in turn raises organizational commitment and reduces turnover intention. The proposed pathways and the

corresponding hypotheses are diagrammatically summarized in Figure 1.

Figure 1. Proposed pathways in the relationships between rewards and outcomes



Note: P.M.: performance management. (+): positive effect; (-): negative effect.

The next section describes the methodology that is adopted to test the hypotheses.

Methodology

Data source and sample

The research utilized data from the APSC's 2010 *State of the Service Employee Survey*. The survey was conducted amongst all employees in APS agencies with at least 100 APS employees and included questions on a range of human resource management issues. The sample was stratified by classification level, agency size, individual agency and location. Data were primarily collected via an online survey. A paper-based delivery method was used for employees who had no access to a personal email account or limited access to the internet. Out of 8,732 employees contacted, 5,588 valid responses were received, representing a 64 percent response rate. The APSC agreed to release a random sample of about 50 per cent of the responses from its dataset for this research (N = 2,756). In order to preserve the sample size, this study utilized the expectation-maximization algorithm method to deal with the small proportion of missing data.

A majority of the 50 per cent random sample of APS employees who participated in the 2010 State of the Service Employee Survey were females (56%), aged 35-54 years old (55%), and their highest educational qualification was a university degree (58%). Most of them worked in large agencies containing more than 1,000 employees (52%), and occupied a non-managerial level position (60%) for at least two years (69%). Thirty-five per cent had worked less than five years in the APS, and 34 per cent had worked between five to less than 15 years. These figures

are quite similar to those drawn from the larger APSC sample.

Measures

Relevant survey questions and scales are set out in the Appendix B

Dependent variables

The dependent variables are turnover intention and (affective) organizational commitment. Turnover intention is measured by a single item: 'Do you intend to leave your agency in the next two years?'. It was examined as a dichotomous variable, with 0 representing those who replied 'no' to the question, and '1' for others who replied 'yes' and 'not sure'.

Organizational commitment focused on affective commitment or employees' emotional attachment to their organization (Allen and Meyer 1990). Four items were utilized to measure the respondents' affective attachment to and identification with their organization using a five-point agree/disagree scale for each. The reliability (Cronbach's alpha) value of this variable was 0.81.

Independent and mediating variables

Positive perceptions of pay and recognition are indicated by two independent variables: pay satisfaction and recognition satisfaction. The former variable draws from the organizational justice literature to assume that employees who believe that their pay is fair or comparable to that of their peers in other agencies are satisfied with the pay received. It involves two survey items to measure respondents' perceptions of pay fairness and pay satisfaction respectively. The reliability (Cronbach's alpha) value of this variable was 0.71. The recognition satisfaction variable assumes that employees who believe that their organization is adequately or fairly acknowledging their achievements and contributions are satisfied with the recognition received. Two survey items measured the respondents' perceptions of the adequacy of and satisfaction with the recognition received. The reliability value of this variable was 0.88.

The mediating variable is perceived trust of the organization's performance management system. It contains four items that measure the respondents' views on the integrity and soundness of the organization's governance processes, including the management of employee engagement, promotion and underperformance. Its reliability value was 0.75.

Analysis

The main variables were tested for convergent and discriminant validity. A confirmatory factor analysis (CFA) indicated a good model fit, suggesting that the items converged on their respective latent variables and that each scale represented a distinct latent variable. The Root Mean Square Error of Approximation (RMSEA) of 0.04 was below the threshold of 0.08. The Standardized Root Mean Square Residual (SRMR) of 0.03 was less than the 0.05 threshold. The Tucker Lewis Index (TLI) of 0.98, the Comparative Fit Index (CFI) of 0.99, and the Goodness of Fit Index (GFI) of 0.99 were above the threshold of 0.90. Although the chi-square $\chi^2(43) = 255.92$, with $p < 0.05$ is inconsistent with the overall good model fit, the chi-square test is known to be sensitive to sample size, with large samples inflating the chi-square and reducing the likelihood of achieving a good model fit (James, Mulaik and Brett 1982). Discriminant validity was further demonstrated with no correlation between any pair of the latent variables greater than 0.64 (between organizational commitment and trust in the organization's system), as shown in table 1 in the next section. This implies that no measure shared more than 40 percent of its variance with any other measure. Variance inflation factor tests also suggested that

multicollinearity was not an issue, with no score exceeding 1.6.

Two tests were conducted to detect the extent of common method bias (CMB) that could arise from self-reported data collected from a single source (the employees). First, the Harman's single-factor test reported a variance of 42 percent, which was below the maximum threshold of 50 percent. Second, the common latent factor technique was used to evaluate the common variance for each measurement item (of the variables) in the model. The standardized regression weights from the model with a common latent factor added were compared to those of a model without the common latent factor. None of the items showed large differences of above 0.20. The largest value was 0.03 (a measurement item of organizational commitment). Despite the results showing that CMB did not appear to be a major issue in this study, these techniques have their shortcomings (Podsakoff et al. 2003; Podsakoff, MacKenzie and Podsakoff 2012) so some caution needs to be exercised about the reported results.

Results

Table 2 (see Appendix A) presents the descriptive statistics, reliability and correlations of the study variables. Several significant relationships are found between the main variables. Pay satisfaction and recognition satisfaction were positively associated with organizational commitment and negatively related to turnover intention: the more the respondents were satisfied with the pay and recognition received, the higher was their commitment to the organization, and the less likely they would consider leaving their organization. Pay satisfaction and recognition satisfaction were also positively related to perceived trust in the organization's performance management system. Further, increased trust was linked to higher organizational commitment and lower turnover intention.

Tables 3 and 4 (see below) display the regression results. The ordinary least squares method was used for organizational commitment, while the binary logistics regression method was adopted for the dichotomous turnover intention variable. Three models are presented. Model 1 displays the total effects of the controls and the independent variables (pay satisfaction and recognition satisfaction) on each of the dependent variables (organizational commitment and turnover intention). Model 2 presents the effects of the controls and the independent variables on the mediating variable (perceived trust of the organization's performance management system). Model 3 shows the impact of the controls, independent variables and mediating variable on the dependent variable.

Table 3. Regression results: Organizational commitment

Variable	Trust of PM system	Organizational commitment	
	Model 2	Model 1a	Model 3a
Gender	.07 (.02)**	.05 (.03)	.01 (.02)
Age	.07 (.02)**	.02 (.03)	-.01 (.02)
Education	.01 (.02)	.02 (.03)	.02 (.02)
Job position	.00 (.03)	-.05 (.03)	-.05 (.03)
Length of service (position)	.05 (.03)	.07 (.03)*	.04 (.03)
Length of service (APS)	.11 (.03)***	.10 (.03)**	.04 (.03)
Pay satisfaction	.24 (.02)***	.24 (.02)***	.11 (.02)***
Recognition satisfaction	.27 (.01)***	.23 (.01)***	.08 (.01)***

Perceived trust of PM system			.54 (.02)***
R^2	.33	.25	.44
F value	163.06***	115.69***	238.29***

Unstandardized coefficient (B), followed by standard error in parentheses.

Level of significance: * = $p < 0.05$; ** = $p < 0.01$; *** = $p < 0.001$.

Sobel test results: $z = 13.35$, $p < 0.001$ for pay satisfaction; $z = 17.25$, $p < 0.001$ for recognition satisfaction.

Table 4. Logistic regression results: Turnover intention

Variable	Model 1b	Model 3b
Gender	-.04 (.09)	-.01 (.09)
Age	-.35 (.09)***	-.32 (.09)**
Education	.18 (.09)*	.18 (.09)*
Job position	-.34 (.11)**	-.35 (.11)**
Length of service (position)	.10 (.10)	.13 (.10)
Length of service (APS)	.41 (.11)***	.47 (.11)***
Pay satisfaction	-.12 (.06)*	-.01 (.06)
Recognition satisfaction	-.56 (.05)***	-.42 (.06)***
Perceived trust of PM system		-.54 (.07)***
<i>Pseudo R² (Nagelkerke)</i>	.12	.15
<i>Model χ^2</i>	250.56***	306.54***

Unstandardized coefficient (B), followed by standard error in parentheses.

Level of significance: * = $p < 0.05$; ** = $p < 0.01$; *** = $p < 0.001$.

Sobel test results: $z = 6.58$, $p < 0.001$ for pay satisfaction; $z = 6.93$, $p < 0.001$ for recognition satisfaction.

The proposed direct relationships were found to be significant. Both pay satisfaction and recognition satisfaction were positively associated with organizational commitment (model 1a), and negatively related to turnover intention (model 1b). The results support the hypotheses on the direct relationships between these rewards and organizational commitment (H1) and turnover intention (H2). The coefficient values of pay satisfaction and recognition satisfaction were next compared to test the third hypothesis of whether recognition satisfaction played a larger role on the outcomes than pay satisfaction. The values were close to each other for organizational commitment (model 1a): 0.24 for pay satisfaction and 0.23 for recognition satisfaction. The differences were larger for turnover intention (model 1b): -0.12 for pay satisfaction and -0.56 for recognition satisfaction. The results support H3a for turnover intention but rejects H3b for organizational commitment: in other words, recognition satisfaction is more important than pay satisfaction for turnover intention but not for organizational commitment.

Tests of the mediation effects followed the steps outlined by Kenny and associates

(Baron and Kenny 1986; Kenny, Kashy and Bolger 1998). Starting with Table 2 (on organizational commitment), first, pay satisfaction and recognition satisfaction (the independent variables) were significantly correlated with organizational commitment (the dependent variable) in model 1a. Second, pay satisfaction and recognition satisfaction were significantly associated with perceived trust in the organization's performance management system (mediator) in model 2. Third, perceived trust was significantly related to the dependent variable, organizational commitment in model 3a. Finally, when perceived trust was controlled, the relationships between the independent variables of pay satisfaction and recognition satisfaction and the dependent variable of commitment became less significant. Although the independent variables remained significant, the coefficient values dropped from 0.24 (model 1a) to 0.11 (model 3a) for pay satisfaction, and from 0.23 (model 1a) to 0.08 (model 3a) for recognition satisfaction, suggesting a partial mediation effect by perceived trust. The results support the fourth hypothesis on the indirect effect of perceived trust in the performance management system on the reward-organizational commitment relationships.

Similar steps were used to test for the mediating effects of perceived trust on turnover intention (Table 3). The independent variables of pay satisfaction and recognition satisfaction were directly related to turnover intention in model 1b. When the perceived trust variable was controlled, pay satisfaction and recognition satisfaction produced different results. The relationship between recognition satisfaction and turnover intention remained significant but the coefficient value of recognition dropped from -0.56 (model 1b) to -0.42 (model 3b). This pattern suggests a partial mediating effect of perceived trust in the performance management system. In contrast, a full mediating effect was observed for pay satisfaction: this variable was no longer significant when perceived trust was controlled (model 3b). Overall, the results support the fifth hypothesis on the mediating effect of perceived trust in the performance management system on the reward-turnover intention relationships, particularly the pay reward-turnover intention relationship.

Discussion

The aim of this study is to obtain a better understanding of how positive perceptions of pay and recognition received might affect employee outcomes within public organizational settings. The respondents who were satisfied with the pay and social recognition received were found to reciprocate in two ways – directly and indirectly – though there were some differences in how organizational commitment and turnover intention were affected. Favourable perceptions of pay and recognition were directly associated with higher affective organizational commitment. Satisfaction with pay and recognition received was also found to partially lead to higher commitment indirectly through higher levels of trust towards the organization's performance management system. The effects on turnover intention were also direct and indirect for recognition: positive perceptions of recognition received were associated with lower turnover intention directly, and also indirectly through increased trust of the organization's performance management system. The impact of pay satisfaction on turnover intention, on the other hand, largely operated through the mediating influence of perceived trust in the organization's performance management system. More positive views of pay received led to increased trust towards the organization's performance management system, and in turn reduced the respondents' tendency to leave the organization.

The findings support the main arguments of the organizational justice and social exchange theories. The direct findings support the organizational justice literature's assertion that providing rewards that are considered by employees to be adequate and fair will result in improved employee

outcomes. The indirect findings confirm the social exchange theory's emphasis on trust building in the workplace. Perceptions of fair treatment by the organization increase employees' propensity to reciprocate through trust building. The presence of trust in a social exchange relationship can encourage employees to view their pay and recognition received as sincere gestures of appreciation, goodwill, and long-term investment in them by their organizational leaders (Bolino and Turnley 2003). They will respond with strengthened socio-emotional bonds with the organization, and engage in activities that benefit their organization.

The findings also support the efficacy of both financial rewards, such as pay, and nonfinancial rewards, such as recognition, in promoting desirable employee outcomes. Both rewards were found to have a significant impact on commitment and turnover intention. Both had almost similar influence on organizational commitment. Recognition satisfaction, however, was found to play a larger role than pay satisfaction in reducing turnover intention. Romzek's (1985) survey of government employees had earlier highlighted the importance of recognition for securing job involvement. According to Kernaghan (2000), 'It is almost a no-brainer that pride and recognition for one's work is a central issue in creating the environment necessary for successful recruitment, retention and renewal' (p.13).

The implications of this study are three-fold for public human resources managers. First, both financial and nonfinancial rewards are essential for positive outcomes. Recognition, for example, can raise affective commitment by signalling to employees the organization's sensitivity to their need for this reward and the organization's positive evaluation of their contributions to the organization. The limited availability of financial rewards in the public sector increases the appeal of social recognition as a means to improve employees' organizational involvement and performance without immediate and considerable monetary outlay (Kernaghan 2001; Romzek 1985). Nevertheless, some employees can be motivated to pursue behaviours that receive social recognition because they expect it to lead to some forthcoming desired tangible outcome, such as a pay rise or promotion (Luthans and Stajkovic 2000). It should be pointed out that pay, a financial reward, is not interchangeable with recognition, a nonfinancial reward. The fact that a majority of research on the reward preferences or orientations of government employees have emphasized the importance of nonfinancial rewards (Heinrich 2007; Perry and Wise 1990; Taylor and Taylor 2011) does not imply that financial rewards are not important to government employees. Despite this study finding of pay satisfaction playing a smaller role in influencing turnover intention than recognition satisfaction, other findings suggest that both rewards are important. Earlier, Kernaghan (2001) argued that the less tangible rewards of recognition should be adequately supported by the more tangible rewards, such as adequate pay. In other words, for social recognition and other nonfinancial rewards to work effectively, they have to be complemented with adequate financial rewards.

Second, for rewards to foster desired outcomes among government employees, they have to be perceived by the employees as fair and adequate. Organizations that fairly pay and recognize their employees for their contributions eventually gain, as shown by the respondents' higher organizational commitment and lower turnover intention. Third, for rewards to promote desirable employee outcomes, employees' trust in the organization's performance management system must also be taken into account. Trust matters because without it, employees will devote their time and energy in self-preserving or defensive activities rather than those that add value to their organization (Ashforth and Lee 1990; Mayer and Gavin 2005).

There are a few limitations to note in this study. First, caution needs to be taken in

generalizing the results beyond this sample of APS employees. Although the APSC dataset is assumed to contain a random sample of the APS workforce based on its multi-staged stratified random sampling method, a good sample would include information on the different levels of the hierarchy (e.g., executives, middle managers, and street level bureaucrats), different occupations (e.g., social service workers, regulatory bureaucrats, etc.), and different demographic groups (e.g., race). To maintain the respondents' anonymity, the dataset for this research was aggregated by the APSC into a few large categories reflecting such characteristics. For example, the different levels of the hierarchy were reduced into two groups: managerial (executives and middle managers) and non-managerial (supervisors and subordinates). Finer details were not available, making it difficult to verify the robustness of the sample.

Second, because this research utilizes cross-sectional data, statements of causality must be treated with caution. Taking the relationship between recognition satisfaction and organizational commitment as an example, does the finding suggest that recognition satisfaction leads to organizational commitment, or is it the other way around? Causality could also go in both directions. Although elements of this research's model conform to established causal directions from the literature, they are suggestive rather than conclusive. Future research using experimental or longitudinal approach could complement the current investigation. Third, the concepts examined in this study are measured from a dataset that is not designed to provide a comprehensive measure of these constructs. Despite the acceptable reliability values of the scales used in this study, future research should incorporate all or most items of established scales to measure the constructs.

Finally, all variables were measured by the responses from a single source. Although it is the aim of this study to examine the perceptions of employees, CMB might impair the validity of the findings. Although the two posthoc statistical techniques for detecting CMB indicate that it is not a pervasive problem in this study, they are subject to limitations (Podsakoff et al. 2003; Podsakoff, MacKenzie and Podsakoff 2012). It would be more prudent to minimize CMB in the first place by collecting data from more than one source or from the same source at different points in time.

Future research could also differentiate between various forms of recognition. An obvious example is between formal recognition (e.g., award) and informal recognition (e.g., an appreciative word from the leader). Studies on the finer details of recognition could provide a better understanding of their workings and improve their application in the workplace. For example, do formal and informal recognition received have similar effects or operate in similar ways to influence employees' outcomes? Future research could also investigate the outcome effects of recognition received from various sources. For example, would recognition received from an immediate supervisor operate as effectively as and similarly to recognition received from management?

Conclusion

Government organizations are utilizing various financial and nonfinancial rewards to manage their employees' performance. Yet, the conditions under which these rewards contribute to favourable employee outcomes are not fully understood. The dominant perspective is that the effects of rewards are transmitted in a relatively straightforward manner: perceptions of fairness directly lead to higher job satisfaction and job motivation. Although this research supports this model, it also illustrates another way in which employees' positive perceptions of rewards lead to

desirable outcomes. This research suggests that trust in the organization's performance management system provides the mediating condition under which high organizational commitment and low turnover intention are most likely to occur.

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Appendix A**Correlation matrix**

Variable	M	SD	1	2	3	4	5	6	7	8	9	10
1. Pay satisfaction	3.68	.79	(.71)									
2. Recognition satisfaction	3.29	.98	.43***	(.88)								
3. Organizational commitment	3.61	.73	.40***	.43***	(.81)							
4. Turnover intention	.50	.50	-.14***	-.26***	-.30***							
5. Perceived trust of PM system	3.34	.71	.44***	.50***	.64***	-.25***	(.75)					
6. Gender	.56	.50	.07***	.06**	.06**	-.03	.09***					
7. Age	.48	.50	.04	-.04*	-.02	-.09***	.00	-.18***				
8. Education	.46	.50	.11***	.02	.06**	.07***	.04*	-.11***	-.08***			
9. Job position	.73	.44	-.07**	-.01	-.03	-.05*	.00	.20***	-.11***	-.32***		
10. Length of service (position)	.61	.49	.03	.08***	.11***	.07**	.10***	.04*	-.31***	.06**	.07***	
11. Length of service (APS)	.32	.47	.02	.08***	.11***	.09***	.12***	.05*	-.29***	.11***	.22***	.55***

M = mean; SD = standard deviation. Level of significance: * = $p < 0.05$; ** = $p < 0.01$; *** = $p < 0.001$.

Appendix B.

Survey scales and items

Perceived pay satisfaction¹

I am fairly remunerated for the work that I do.

I am well paid compared to what I would receive in other agencies.

Social recognition satisfaction¹

I receive adequate recognition for my work contributions and accomplishments.

I am satisfied with the recognition I receive for doing a good job.

Perceived trust of organization's performance management system¹

My agency deals with underperformance effectively.

My agency routinely applies merit in decisions regarding engagement and promotion

My agency operates with a high level of integrity

Overall, my agency has sound governance processes for effective decision making.

Organizational commitment¹

When someone praises the accomplishments of my agency, it feels like a personal compliment to me.

When I talk about my agency, I usually say 'we' rather than 'they'.

I am proud to work in my current agency.

I would recommend my current agency as a good place to work.

Turnover intention¹

Do you intend to leave your agency in the next two years?'

¹With the exception of the turnover intention variable (1 = 'yes' and 'not sure', 0 = 'no'), all responses are on a five-point agree/disagree scale, coded 1 (strongly disagree) through 5 (strongly agree).

Controls: Gender (1 = female, 0 = male); age (1 = 45 years and older, 0 = below 45 years), education (1 = university graduate, 0 = below university), level of position (1 = managerial, 0 = nonmanagerial), length of service at the current level (1 = at least 5 years, 0 = less than 5 years), and length of service in the APS (1 = at least 5 years, 0 = less than 5 years).