

# REWARDING EMPLOYEE LOYALTY: AN ORGANIZATIONAL JUSTICE APPROACH

Ronald Fischer

## ABSTRACT

Research on commitment has demonstrated that maintaining high levels of commitment is important for organizational success and well-being. However, no research has addressed to what extent organizations recognize and reward those individuals who are highly committed and loyal to an organization. Therefore, the present study presents some data from employees in the US, UK, New Zealand and Germany that investigates the impact of rewarding loyalty on work attitudes. Specifically, a model is tested whereby rewarding loyalty is evaluated in terms of justice, which in turn is related to job satisfaction and organizational commitment. Using structural equation modelling, general support for the model has been found.

## INTRODUCTION

Maintaining high levels of affective organizational commitment is important for organizational survival and well-being. Rapid changes in task demands and role definitions due to global competition and the use of information technology mean that traditional control mechanisms are no longer effective. Employee loyalty and commitment have attracted much attention due to the expectation that committed and loyal employees will act in the best interest of an organization. Much research has focused on the antecedents and consequences of commitment. Studies discuss antecedent effects such as task characteristics (Eby, Freeman, Rush & Lance 1999; Glisson & Durich 1988) or leadership styles (DeGroot, Kiker & Cross 2000). It is often argued that organizations should try and maintain a highly committed and loyal workforce. Meyer (1997) argued that Human Resource Management (HRM) practices such as selection, compensation and promotion are likely to be more distal antecedents of commitment, compared with leadership styles or task characteristics. On the other hand, HRM practices have the advantage of being under more direct control by the organization. After all, if you would like to keep those individuals who are loyal and committed, why not include these concerns explicitly in the formal reward allocation process? However, to the best of my knowledge, no research has investigated the effects of explicitly recognizing and rewarding employee loyalty. The present study tries to close this gap by showing the effect of consideration of employee loyalty in formal reward schemes on attitudes towards one's job and organization. Employees in the US, UK, New Zealand and Germany are asked whether their organization considers loyalty of employees when making human resource decisions.

---

Ronald Fischer (email: [ronald.fischer@vuw.ac.nz](mailto:ronald.fischer@vuw.ac.nz)) is with the School of Psychology, Victoria University Wellington, New Zealand.

**Acknowledgement:** Ron Fischer would like to acknowledge the invaluable help of Peter B. Smith, Brenda Richey, Katja Garbe, Lutz Munka, Gernot von Collani, Birgit Schyns, Juergen Maes and Siegfried Stumpf during data collection. I am grateful to Eva Pomerantz and two anonymous reviewers for comments on an earlier draft of this paper. I would also like to acknowledge the great guidance and mentoring provided by Peter B. Smith throughout this project.

First, I will research on reward allocation and the importance of perceived justice, before discussing why rewarding loyalty is of importance for organizations. Finally, I will present the model to be tested in this study.

## **ORGANIZATIONAL REWARD ALLOCATION AND ORGANIZATIONAL JUSTICE**

Organizational reward allocation processes are one of the main tools for maintaining and increasing work motivation (Erez & Earley 1993). Organizations have great discretion about the specific aspects they can consider and reward when making decisions about highly valued resources such as pay raises or promotions, or making negative decisions such as those about dismissals. As Meyer (1997) points out, HRM policies and practices are likely to have an impact on organizational commitment. An advantage of using HRM practices compared with other antecedent variables such as task characteristics or leadership is that they are under more direct control of organizations (Meyer 1997). One study by Gaertner and Nollen (1989) showed that reward practices (promotions) had a stronger effect on subsequent commitment than other concepts normally studied as antecedents of commitment, such as supervisory relations or participation. Therefore, organizations interested in keeping a loyal and committed workforce could communicate this to employees by explicitly rewarding levels of loyalty and commitment of employees. Schein (1990) argued that HRM practices have a strong communicative component because they tell employees what is important and rewarded in an organization. Organizations could use HRM practices, such as rewards, to increase and maintain high levels of commitment and loyalty.

Perceptions of fairness also communicate that organizations are committed to their employees (Meyer 1997). Research on perceived organizational support (Eisenberger, Huntington, Hutchison & Sowa 1986; Eisenberger, Fasolo & Davis-LaMastro 1990; Eisenberger, Armeli, Rexwinkel, Lynch & Rhoades 2001) demonstrates that an organization's commitment to employees is important for maintaining higher levels of commitment. Eisenberger et al. (1986) highlighted that indiscriminate praise or approval by agents of the organization is likely to lead to lower perceived organizational support. On the other hand, increases in material and symbolic rewards that show a positive evaluation of the employee, and that are attributable to deliberate and voluntary decisions by the organization, are likely to increase perceived support. Supporting those individuals who are loyal and committed will strengthen the bond between the organization and employees. Therefore, it would be interesting to investigate whether organizations actually reward loyalty. Previous arguments in the literature indicate that organizations might consider loyalty and the implication is that rewarding loyalty would strengthen commitment. This will be tested in the present study.

Previous justice research on HRM practices has primarily focused on allocation criteria such as equity, equality or need (Deutsch 1975; Fischer & Smith 2003). Equity or the consideration of work performance is supposed to be the most relevant criterion for organizations (e.g. Adams 1965; Fischer & Smith 2004). However, research has demonstrated that managers can consider a number of different criteria such as seniority, need or various forms of equality (e.g. Chen 1995; Fischer 2004). The important question is whether individuals perceive such decisions as fair. Employees evaluate their experiences at work in terms of whether they are fair and whether organizations show concern for them as an individual (Tyler & Lind 1992). If individuals perceive a decision as being fair, they are more likely to reciprocate with higher

commitment, greater job satisfaction and engage in extra-role behaviour. (Colquitt, Conlon, Wesson, Porter & Ng 2001).

Two main dimensions of justice have traditionally been distinguished (Greenberg 1990). The first dimension is distributive justice. It deals with the outcomes of decisions and which criteria have been used by organizations when making decisions. The second dimension focuses more on the procedures and how procedures are enacted. This aspect is called procedural justice. It has been shown to relate to identity concerns of individuals (Tyler & Blader 2003) because it communicates to employees whether they are full-fledged and respected members of a group (Tyler & Lind 1992).

Various studies have shown that reward allocation procedures and HRM practices are evaluated in terms of justice (Gilliland 1993; Jones, Scarpello & Bergmann 1999; Ryan & Ployhart 2000). However, it is unclear whether rewarding loyalty would be more strongly related to distributive or procedural justice. First, considering loyalty is a criterion that is used to determine an outcome (e.g. pay raise, promotion). Therefore, it should be related to perceptions of distributive justice. However, rewarding loyalty also has a strong symbolic message. It indicates that an organization is concerned with the well-being of employees who are loyal and committed. Therefore, rewarding loyalty might also be related to procedural justice. The study will, therefore, examine how employees perceive allocations where organizations considered loyalty in the decision process.

## **THE EFFECTS OF PERCEIVED JUSTICE ON WORK OUTCOMES**

Greenberg (1990) suggested that the two aspects of justice have a somewhat different effect on organizational variables depending on their focus. Sweeney and McFarlin (1993) used the label 'two-factor model' to indicate that both justice dimensions are important, but that they affect different outcome variables. Distributive justice relates more to outcome satisfaction or the evaluation of some final decision concerning somebody personally, than to attitudes about the system (McFarlin & Sweeney 1992; Sweeney & McFarlin 1993). These outcomes were called personal level outcome variables. Procedural justice, on the other hand, is more closely related to system satisfaction. Perceptions of fair treatment are important for attitudes about the larger organization. People are likely to retain positive attitudes towards their organization when the procedures determining the decision were fair, even when the decision itself resulted in an unfavourable outcome (e.g. McFarlin & Sweeney 1992; Schaubroeck, May & Brown 1994; Sweeney & McFarlin 1993). Such attitudes directed at the organization were labelled organizational level outcome variables. Organizational commitment is such a system level outcome.

A path analysis by McFarlin and Sweeney (1993) indicated that the two-factor model provided the most parsimonious explanation for the effects of justice on work outcomes. A recent meta-analysis of 183 empirical studies (Colquitt et al. 2001) found further support for this model. Therefore, I propose that procedural justice in the present study will be related to the commitment levels of employees (a system level outcome), whereas distributive justice will influence job satisfaction levels (a person level outcome).

Consequently, the present study investigates the extent to which employees evaluate decisions within their organization in terms of the perceived fairness. First, I would argue that

rewarding loyalty will lead to more positive fairness perceptions. It is investigated whether rewarding loyalty is more closely related to procedural or distributive justice.

**Hypothesis 1:** Rewarding loyalty will be evaluated in terms of fairness.

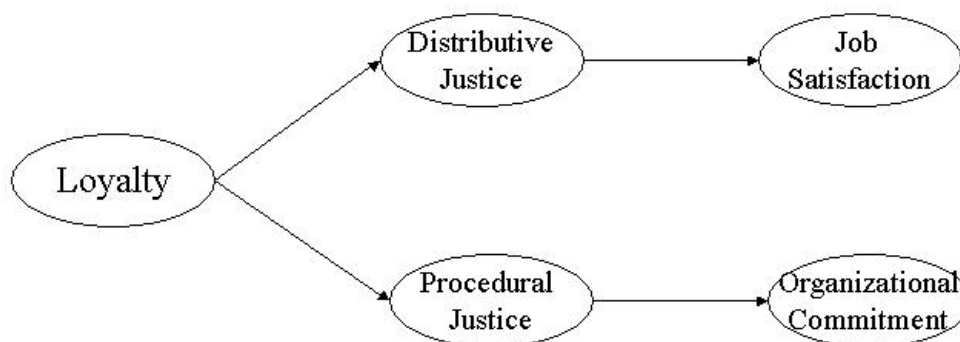
Second, I propose that perceived justice will influence levels of commitment and satisfaction. Perceptions of procedural justice will be associated with higher commitment to the organization, whereas job satisfaction will be related to perceptions of greater distributive justice.

**Hypothesis 2:** Perceived distributive justice will be related to greater job satisfaction.

**Hypothesis 3:** Perceived procedural justice will be related to greater organizational commitment.

Therefore, I propose a model in which allocations based on loyalty are evaluated in terms of fairness and these perceptions, in turn, then relate to work outcomes such as job satisfaction and organizational commitment. Figure 1 shows the proposed model.

**Figure 1: Proposed model**



It should be noted here that justice has a strong symbolic function. In the present study, I am asking individuals to report on HR practices within their organization. Respondents are therefore not direct recipients of allocations, but mere observers. I then ask them to rate whether those decisions were fair in terms of procedural, as well as distributive, standards. Consequently, these evaluations are about external events. The resulting justice perceptions provide information about the value and respect given to individuals by the larger organization (Tyler & Lind 1992). Employees constantly have to reconsider their involvement in the organization and need to determine whether they are subject to potential exploitation and social exclusion (Lind 2001). This so-called fundamental social dilemma can be resolved by focusing on the treatment received by others and the attributed fairness as observed in those interactions (Lind 2002). Consequently, justice theories such as the Fairness Heuristics Theory (Lind 2001) or the Relational Model of Authorities (Tyler & Lind 1992) propose it is important to investigate the impact of observations of organizational events on employees' attitudes and behaviour. Therefore, this study adopts such an approach whereby observations

of HR decisions are evaluated in terms of perceived justice and then those perceptions are related to job satisfaction and organizational commitment. Participants were asked about their perceptions of reward allocation procedures in their organization. Specifically, they were asked to remember situations when decisions about pay raises, promotions and dismissals were made. This is similar to the classical critical incident technique (Flanagan 1954), which can be used to collect significant and specific information about organizational events

In addition, those previous studies on justice have mainly focused on US employees. Therefore, conclusions about the validity and generalisability of findings are limited by considering only one specific cultural, economic and legal context. In the present study this problem was circumvented by studying perceptions of employees from four different countries. Samples from the US, UK, New Zealand and Germany were included. Those four locations are fairly similar in that they are all highly developed Western democracies with relatively similar cultural and historical backgrounds. Culturally, the UK, US and New Zealand have traditionally been seen as part of an Anglo-Saxon culture cluster. Germany is part of an adjacent Germanic culture cluster (Ronen & Shenkar 1986). The US is the dominating economic force in the world. Within Europe, both the UK and Germany are key players and they represent the two largest economies. New Zealand is a small but significant player within the Australasian region. Hence, these countries are representing a more diverse sample of important economies and studying participants from these countries provides a broader test of current theories and models of organizational behaviour without introducing too much cultural variance. Therefore, the present study investigates to what extent the proposed model can be used to explain effects of HRM on job satisfaction and organizational commitment across these four different contexts.

## **METHOD**

### **Participants**

Psychology students at the University of Sussex, Leipzig University, Regensburg University, Trier University, and Florida Atlantic University, were asked to distribute surveys to full-time organization employees. Students were asked to pass on the survey to their parents, friends, neighbours or relatives who were in full-time employment. In New Zealand, surveys were distributed to members of the public in the capital. It has been argued that sampling respondents from only one single organization restricts variance necessary to detect organizational effects (Klein, Danserau & Hall 1994). Therefore, snowball sampling was used to obtain greater variability and a good cross-section of professions and industries within each country (see Fischer 2004). Similar techniques have been used by Hochwarter, Kacmar, Perrewe and Johnson (2003) and Zickar, Gibby and Jenny (2004) in recruiting work populations from diverse backgrounds. One hundred and six forms were returned in UK, 179 in Germany, 131 in the US and 92 in New Zealand. The response rate in Britain was about 58 percent and in New Zealand about 45 percent. No steps were taken in Germany and the US to calculate exact response rates, however, comments by those distributing the surveys in Germany and the US indicate that the rates were approximately comparable. The combined sample size was 508. There were some missing data points. For the analysis reported below, listwise deletion of missing data was used, resulting in a final sample size of 385. Data collection took place between 2000 and 2003. Table 1 reports the demographic composition of the samples.

---

**Table 1: Demographic composition of the samples**

	UK	Germany	US	NZ
Manager	29.8%	7.9%	39.8%	20.4%
Staff	70.2%	92.1%	60.2%	79.6%
Private sector	73.6%	65.4%	76.7%	57.4%
Public sector	26.4%	34.6%	23.3%	42.6%
Organizational size				
Less than 20 employees	16.3%	17.6%	23.1%	13.5%
20 – 100 employees	20.2%	26.1%	24.6%	20.2%
100 – 1000 employees	21.2%	32.4%	21.5%	32.6%
More than 1000 employees	42.3%	23.9%	30.8%	33.7%
Females	49.1%	50.6%	51.9%	35.2%
Age (SD)	34.94 (12.88)	38.52 (11.0)	34.03 (11.84)	32.24 (9.79)
Tenure in the organization (SD)	7.39 (7.99)	11.52 (9.93)	5.32 (4.96)	3.80 (4.79)
Tenure in the job (SD)	4.90 (5.18)	7.64 (7.28)	4.43 (5.23)	2.70 (3.17)
Years of completed education (SD)	13.24 (4.56)	12.07 (5.59)	7.48 (5.80)	10.81 (6.09)

### Measures

All measures were administered in English, except in Germany. All instruments were translated into German by the author. The translation was checked using a committee approach. A bilingual postgraduate student at Sussex University, UK and an occupational psychologist at Leipzig University, Germany independently verified the translation.

**Loyalty.** A survey was constructed in which participants were asked to recall a typical occasion in their organization when somebody received a pay raise, was promoted or was asked to leave the company. These are relatively frequent events in organizations and these three decisions have regularly been studied in experimental reward allocation research (Fischer & Smith 2003). In a pilot test involving 88 UK employees, participants reported that they observed on average 33 pay raises over the last year in their organization, about three promotions, and one occasion where somebody was asked to leave the organization. Therefore, these three decisions constitute fairly frequent events that can be empirically investigated. Participants were then asked to indicate, in relation to each of these events, the extent to which their organization considered loyalty. A five point-scale was used with the anchoring labels 'always', 'often', 'sometimes', 'seldom' and 'never'. The data was coded so that greater numbers indicate more frequent consideration of loyalty. The items are: 'Loyal employees (who are committed to their organization) receive more money', 'Loyal employees (who are committed to their organization) are promoted faster' and 'Loyal employees (who are committed to their organization) are less likely to be asked to go first'. Therefore, there

were three items in total (one item per event). Respondents answered about typical events within their organization and they were therefore neutral observers rather than recipients of these allocations. The internal consistency was satisfactory ( $\alpha = .71$ ).

**Justice:** Distributive and procedural justice were measured for each decision separately. Model items for the distributive justice evaluations were: 'The final outcome of the decision about the pay raise was fair' and 'People got the promotion they deserved'. Therefore, these items measure aspects of the outcome itself and outcome favourability (e.g. Brockner & Wiesenfeld 1995). The two procedural items measured aspects of satisfaction with the procedures (e.g. 'People were satisfied with the procedures used to determine the promotion') and global procedural justice (e.g. 'The procedures used to decide over the dismissal were just') (e.g. Van de Bos, Lind, Vermunt & Wilke 1997). Consequently, there were six items measuring distributive justice and six items measuring procedural justice. The internal consistencies were .78 for distributive justice and .77 for procedural justice.

**Job satisfaction:** In the present study job satisfaction was used as a global and uni-dimensional construct (e.g. Folger & Konovsky 1989; Moorman 1991; Sweeney & McFarlin 1993). Ironson, Smith, Brannick, Gibson and Paul (1989) have outlined some of the methodological problems of specific or facet scales and demonstrated the usefulness of global scales. Another problem is the question of direct versus indirect assessment of job satisfaction (asking people directly about their satisfaction with the job or indirectly by asking whether they would take the same job again, would recommend the job, etc.). In the present study an indirect scale as used by Leung, Smith, Wang and Sun (1996) was included. Answers were given on five-point scales with verbal labels 'strongly agree', 'agree', 'neither agree nor disagree', 'disagree' and 'strongly disagree'. Answers were scored so that higher numbers indicate greater agreement and greater satisfaction. The items used were: 'I am satisfied with my job', 'I would take the same job again', 'I would recommend this job to a friend' and 'This job measures up to my expectations'. The internal consistency was high ( $\alpha = .88$ ).

**Organizational commitment:** Various instruments are available. The scale most often used was developed by Mowday et al. (1979). In the present study, the affective commitment subscale by Allan and Meyer (1990) was used. First, it is considerably shorter than the scale by Mowday et al. Second, Ko, Price and Miller (1997) argued that the Mowday et al. scale includes some items measuring consequences of commitment such as the intention to remain a member of the organization. Allan and Meyer's commitment subscale only measures the affective component. Third, although Allan and Meyer's scale is shorter, it includes negative phrased items, whereas only the long version of the Mowday et al. scale included negative items. Finally, a recently validated German scale is available (Schmidt et al. 1998). Previous studies have shown good validities and excellent reliabilities for this subscale (e.g. Allan & Meyer, 1990; Meyer et al. 1993; Schmidt et al. 1998). Answers were given on five-point scales with verbal labels 'strongly agree', 'agree', 'neither agree nor disagree', 'disagree' and 'strongly disagree'. Higher numbers indicate greater commitment. Example items include: 'I would be happy to spend the rest of my career with this organization' and 'I really feel as if this organization's problems are my own'. The reliability in this study was good ( $\alpha = .83$ ).

It is also important to investigate whether the four samples can be combined. The present study is concerned whether a model can be tested across all four samples. The important issue therefore is to examine whether the correlations between the constructs are not statistically different from each other across the samples. If there were substantial and significant

differences in the correlations of interest (e.g. between loyalty and justice; justice and the work outcome variables), aggregation of the data may result in misleading conclusions. In contrast, if there are few significant differences and these are restricted to less central aspects of the model (e.g. direct links of loyalty onto job attitudes), then an aggregation of the samples would be justified. Using Fisher  $r$  to  $z$  transformation and Bonferroni adjustments (Howell 1997), the only significant difference in correlations was found between the German and the US sample ( $z = -4.31$ ,  $p < .001$ ) for the correlation between loyalty and job satisfaction. The correlation was not significant and close to zero in the German sample ( $r = -.09$ ), but it was significant in the US sample ( $r = .39$ ). This indicates that rewarding loyal employees has a strong positive association with satisfaction in the US sample, whereas in the German sample no such effect can be observed. In absence of any other significant effects, it seems justified to combine the samples and to test the model in the pooled data set. Table 2 displays the descriptive statistics for all variables in the pooled sample.

**Table 2: Descriptive statistics of the study variables**

	Mean	SD	Alpha	1.	2.	3.	4.
1. Loyalty	2.89	.85	.71				
2. Distributive Justice	3.41	.69	.78	.20*			
3. Procedural Justice	3.17	.69	.77	.18*	.80**		
4. Satisfaction	3.50	.90	.88	.10*	.41**	.43**	
5. Organizational commitment	3.20	.80	.83	.05	.35**	.37**	.64**

Note: \*  $p < .05$ ; \*\*  $p < .01$

**Overall confirmatory factor analysis:** To test the psychometric properties of the scales, all variables were submitted to confirmatory factor analysis using Maximum Likelihood estimation in LISREL 8.52. The error variances for the justice items were allowed to co-vary (Bollen, 1989; Long, 1983). Several fit indices were compared. The Chi square statistic has traditionally been used to evaluate model fit, however several authors have identified various problems (e.g. Bentler & Bonnett 1980; Bentler 1990, Bollen 1989, Mulaik, James, Van Alstine, Bennett, Lind & Stilwell 1989). Therefore, some other fit indices are also evaluated. First, some incremental or comparative fit indices are examined. The comparative fit index (CFI) as proposed by Bentler (1990) compares the model against a base line model. The Tucker-Lewis Fit index (TLI) or non-normed-fit-index (Bentler & Bonnett 1980) has been found to be very robust and relatively sample size independent (Mulaik et al. 1989). Therefore, these three indices were used. Values ranging from the high 0.80s to 0.90s have traditionally been seen as indicators of a good fit (Marsh, Balla & McDonald 1988), however, more recently Hu and Bentler (1999) have argued that the fit indices should reach a level of .95 or higher. Lack of fit indices constitute a second set of fit indices. Here, the Root Mean Square Error of Approximation (RMSEA; Browne & Cudeck 1992) is used since it takes degrees of freedom into account and penalizes less parsimonious models. A value of less than 0.05 is ideal, values ranging between 0.06 and 0.08 are acceptable and values larger than 0.10 indicate poor fit (Browne & Cudeck 1992). The fit indices for the five factor solution were excellent given the number of variables involved:  $\chi^2(247) = 481.25$ , TLI = .97, CFI = .98, RMSEA = .05. Therefore, both traditional (Marsh et al., 1988) as well as more contemporary fit criteria (Hu & Bentler, 1999) were met.

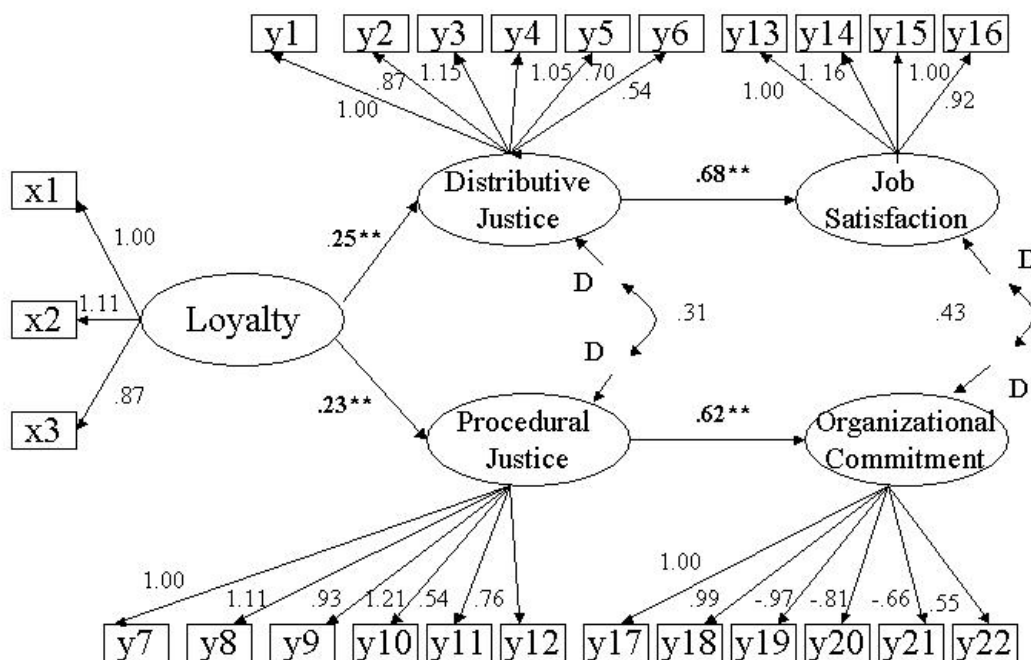
**RESULTS**

To test the proposed relations, Anderson and Gerbig’s (1988) two-step latent factor structural equation modelling approach was used. The first step involves the estimation of a measurement model. The covariances between the latent variables are freely estimated and no constraints are introduced. The fit of this measurement model is:  $\chi^2(247) = 481.25$ , TLI = .97, CFI = .98, RMSEA = .05. Using this measurement model, theory-driven constraints among the latent variables are then introduced. The model as shown in Figure 1 is evaluated using the various fit indices described above. The main advantage of this two-step approach using latent constructs is the estimation of random measurement error.

In this study, the disturbance terms (error variances for latent constructs) between distributive and procedural justice and between job satisfaction and organizational commitment were allowed to co-vary. Previous research has shown that these constructs are correlated, but conceptually and empirically distinct (see meta-analyses by Colquitt et al. 2001; Mathieu & Zajac 1990; see also Mathieu & Farr 1991). The correlation of the constructs is normally in the range of .5 to .8 (see Colquitt et al. 2001; Mathieu & Zajac 1991) and the direction of the relationship (e.g. ‘causality’) is strongly debated, with some indications of reciprocal effects (e.g. Mathieu & Zajac, 1991). Therefore, the most appropriate solution to this problem is to allow the error terms to co-vary which allows for a non-directional estimation of the relationships.

The fit indices for the proposed model are acceptable:  $\chi^2(251) = 494.05$ , TLI = .97, CFI = .98, RMSEA = .05. Therefore, the model fits the data well using both traditional, as well as more recent, cut-off criteria.

**Figure 2: Estimated model (with unstandardized coefficients).**



Note: \*\* p < .01 for path coefficients. All factor loadings are significant at p < .05 or less. See text for fit indices.

Next, I tested whether each path significantly contributed to model fit. Therefore, individual paths between the latent variables were restricted to zero and the model fit of this constrained model was compared to the overall model fit. This test shows whether each path is important for the overall model and the overall model fit. First, the path from loyalty to distributive justice was set to zero. The resulting model fit much worse:  $\Delta\chi^2(1) = 17.00$ ;  $p < .005$ . Therefore, loyalty is linked to distributive justice perceptions, supporting hypothesis 1. Next, constraining the path from loyalty to procedural justice, the difference between the two models was highly significant:  $\Delta\chi^2(1) = 16.17$ ;  $p < .005$ . This indicates that loyalty is also related to perceptions of procedural justice, a further support for hypothesis 1. Constraining the link from distributive justice to job satisfaction to zero resulted in a worse model fit:  $\Delta\chi^2(1) = 50.82$ ;  $p < .001$ . In support of hypothesis 2, distributive justice is strongly related to job satisfaction. Finally, the model fit worsened when the link between procedural justice and organizational commitment was set to zero:  $\Delta\chi^2(1) = 50.82$ ;  $p < .001$ . Supporting hypothesis 3, procedural justice is associated with greater commitment to the organization. Therefore, the overall model was well supported and all proposed links were found as predicted.

## DISCUSSION

The present study shows that (a) individuals evaluate reward allocations focusing on loyalty in terms of fairness and (b) that these fairness perceptions, in turn, influence the level of satisfaction and commitment of employees. The mean for considering loyalty was around the midpoint of the scale, which indicates that, according to participants in this study, loyalty is considered at least sometimes when organizations decide over pay raises, promotions and dismissals. Employees perceive such events and have to make sense of them. As Lind (2001) has argued, employees have to determine whether they will be subject to exploitation and exclusion of valued relationships and therefore consider elements of justice. In the present study, rewarding loyalty was significantly related to both procedural and distributive justice. The link between distributive justice and considering loyalty during the reward allocation process indicates that individuals believe rewarding those who are loyal and committed is fair and that such outcomes are favourable (e.g. perceptions of distributive justice). But rewarding loyalty also has a symbolic meaning showing that organizations value those who are loyal and committed as evidenced by the positive link between procedural justice and organizational procedures that took loyalty into account (e.g. perceptions of procedural justice). Both dimensions of justice are important for the evaluation of reward allocation decisions.

The present research also shows that justice then relates back to job attitudes. In line with previous research, distributive justice was strongly related to job satisfaction, whereas procedural justice was strongly related to commitment. It seems that rewarding loyal employees impacts levels of commitment indirectly, via procedural justice. Perceptions of procedural justice are supposed to communicate to individuals whether they are valued and included in valued groups. Therefore, rewarding loyalty communicates to employees that they are a valuable part of the organization and that they are full-fledged members with all rights and benefits associated with membership. This perception then in turn increases levels of commitment. This might be seen as an example of a reinforcing cycle, whereby those who identify with the organization and are loyal will respond more favourably to organizations and increase their level of commitment and loyalty when they see that their organization actively considers levels of commitment and loyalty.

It should be noted that the correlation between rewarding loyalty and organizational commitment was not significant and close to zero. As Meyer (1997) argued, HRM practices such as reward allocation practices are distal antecedents of commitment. Such practices are likely to shape perceptions of the organization and these perceptions then relate to commitment. How individuals interpret these events and practices are important. The current study shows that employees report that rewarding loyalty is overall seen as fair. These perceptions of fairness then predict commitment. Therefore, the link is not direct, but rather indirect and supports arguments by Meyer (1997). The interpretation of external events by employees is important rather than the event per se.

This finding could be interpreted as a sign of construct validity. We asked participants to indicate how often their organization considers their loyalty when making decisions. A positive correlation might indicate that committed individuals see any decisions in more positive light. It might also indicate common method variance, for example, an artificial inflation of correlations due to response biases. The absence of a significant relationship indicates that common method variance is not a strong contender for explaining the other results.

However, the positive relationship between rewarding loyalty and procedural justice and the positive relationship between procedural justice and commitment lends support for the proposed model. External events such as reward allocation are not necessarily directly related to internal variables such as commitment, but need to be processed psychologically (Baron & Kenny 1985). In the current study, I have focused on perceived justice, since the extant literature suggests that perceptions of justice are crucial for the interpretation of organizational events. Commitment is also influenced by a number of other variables, such as task characteristics and leadership variables (Mathieu & Zajac 1990), therefore, future research should investigate justice perceptions vis-à-vis variables that have been studied previously in the commitment literature (e.g. job characteristics; group-leader relations, organizational characteristics). Here I have shown that reward allocation is interpreted in terms of justice, which then relates back to levels of commitment.

Job satisfaction was also related to reward allocation, specifically perceptions of distributive justice. Distributive justice focuses on the outcomes of an allocation, for example, whether individuals are satisfied with the outcome and whether they think that the outcome itself is fair. Perceptions of satisfaction with the outcome and fairness therefore are likely to relate to perceptions of satisfaction with one's job. This is in line with the two-factor model of organizational justice (Sweeney & McFarlin 1993). Rewarding those who are loyal and committed will lead to more favourable perceptions of distributive justice, which in turn relates to greater satisfaction.

### **Limitations**

The present study used a cross-section design. Therefore, any claims about causality are impossible. Future research should focus on longitudinal studies to understand the process over time to allow firmer conclusion about the nature of the reported effects. The nature of the variables (e.g. external reward allocation procedures, interpretations of these procedures in terms of fairness and internal states such as satisfaction and commitment) considered in the present study would suggest that the model is possible. A reversed model (e.g. commitment and satisfaction predicting perceptions of justice and then predicting the reported use of

loyalty within one's organization when making decisions) is not very plausible and is not in line with the dominant literature in the field.

The use of correlational designs depending on self-reports is also open to the potential problem of same source bias and common method variance. However, the CFA strongly indicated that the variables were empirically distinct and common method explanations are less likely. Research by Crampton and Wagner (1998) suggests that self-report measures are less susceptible to such biases when respondents are asked about external events that can be easily verified, as in the present study. The presence of non-zero correlations also suggests that common method variance and same-source bias are not likely to be plausible explanations of the current findings.

In the present study, I used samples from four different Western countries. I tested whether the correlations between the constructs of interest would differ across samples. Evidence that correlations are significantly different would not allow pooling of the data to test the model. In the present study only one significant difference was found that indicated that rewarding loyalty is associated with higher satisfaction in the US sample compared with the German sample. Future research should focus on emerging differences like this and investigate to which extent these differences are explicable in terms of cultural, institutional or artefact variables. The sampling strategy used was intended to obtain respondents from as many different organisations and backgrounds as possible to allow for an adequate test of the proposed model. However, the representativeness of this strategy cannot be determined and future studies might include employees from directly matched samples (in terms of industry, status, sector, etc.) to better control for potential confounds.

The present study has focused on two aspects justice, namely distributive and procedural justice. However, a third aspect can be distinguished, namely justice perceptions related to the interaction with particular authorities. This so-called interpersonal aspect (Bies & Moag 1986) has been found to be a very powerful predictor of work attitudes and behaviour (see Colquitt et al. 2001). Therefore, future research should investigate whether it is the actual behaviour of decision-makers during the interaction that is important for the evaluation of justice rather than the allocation criteria (loyalty in this case) that will influence work attitudes and behaviour. Future research might complement the present research investigating structural components of HR systems (Greenberg 1993) by including more interpersonal aspects to obtain a more complete picture of HRM and its effects on employees.

Finally, only one specific reward allocation principle, namely loyalty, was considered here. It is unclear to which extent loyalty interacts with other principles, such as equity (consideration of work performance). Research has also shown that loyalty is related to positive affectivity (Thoresen, Kaplan, Barsky, Warren & de Chermont 1996). Therefore, consideration of loyalty might be confounded with favourable perceptions of individual employees, for example, those who are very pleasant to work with and have an easy-going personality might be seen as more committed. Therefore, personality might be confounded with loyalty. In the present study, no such data was collected. Future research needs to determine how rewarding loyalty relates to other allocation principles and personality variables.

### **Implications for research and practice**

This is a first exploratory study of the effects of rewarding loyalty. More research is clearly needed, but the emergent pattern suggests that organizations can benefit from considering the

loyalty and commitment of their employees. The crucial aspect is whether employees perceive such decisions as fair. The current study suggests that they do. Therefore, rewarding loyal employees might trigger a positive cycle whereby committed employees will increase their commitment and loyalty, once they perceive that their organization considers their levels of commitment and loyalty. The findings also suggest that satisfaction levels can be raised when considering loyalty, through perceptions of distributive justice. In the present study, employees from four Western countries were studied, highlighting the universality and robustness of the effects across different settings.

The present study also shows that additional reward allocation criteria are important in applied contexts such as organizations. Previous research in the US has exclusively focused on equity or job performance (see, for example, the meta-analysis by Colquitt et al. 2001). However, recently some researchers have demonstrated that other criteria such as tenure, need, or job status are also important (Chen 1995; Fischer 2004). More research is needed to investigate these criteria. Expanding the domain of allocation criteria would help us to get a better understanding of reward allocation in a human resource context. Managers might often not be consciously aware of their implicit stereotypes and biases, but employees will perceive patterns and interpret them in terms of justice. Therefore, research has to move beyond just considering equity when trying to understand human resource decisions.

The study also implies that specific reward allocation criteria can be seen as part of both procedural as well as distributive justice. Considering loyalty is an aspect of distributive justice because it is directly related to the outcome at hand. This has been the traditional area of reward allocation criteria and distributive justice (e.g. Fischer & Smith 2003). However, these criteria are also related to procedures. Organizations have discretion about what they can consider and, therefore, the choice of the criteria selected for human resource decision making reflects on the procedures in place. Traditional procedural justice criteria have been to give employees an opportunity to voice their opinion, to collect accurate information, being neutral and bias free (Leventhal 1980). The choice of the specific criteria used in the procedural system could also be seen as part of the procedural system. These criteria certainly communicate what is valued within an organization. Employees are likely to interpret these procedures and evaluate them in relation to their own standing, as well as perceptions about their inclusion within their group. Future research should investigate more directly how reward allocation criteria fit in with the two dimensions of justice.

Finally, the present study focused on material benefits (pay raises, promotions and dismissals). However, resource theory (Foa & Foa 1974) suggests that rewards are much broader and include non-tangible and emotional rewards. More recent laboratory research by Chen (1995) also suggests that allocation criteria differ, depending on whether they are used in the context of allocating material versus socio-emotional rewards. It could be that the effects of rewarding loyalty are much stronger when used with socio-emotional rewards. These could include praise, status, providing employees with a nicer office, or other aspects that have no direct material component. Future research should therefore broaden the scope of distributive justice by considering socio-emotional rewards, as well as material rewards. Effects of rewarding loyalty might be different depending on the nature of the specific rewards under investigation.

---

**REFERENCES**

- Adams, JS 1965, 'Inequity in social exchange', in L Berkowitz (ed.), *Advances in Experimental Social Psychology*, vol. 2, Academia Press, New York, pp. 267-296.
- Allen, NJ & Meyer, JP 1990, 'The measurement and antecedents of affective, continuance and normative commitment to the organization', *Journal of Occupational Psychology*, 63, 1-18.
- Anderson, JC & Gerbig, DW 1988, 'Structural equation modelling in practice: A review and recommended two-step approach', *Psychological Bulletin*, 103, 411-423.
- Bentler, PM & Bonnett, DG 1980, 'Significance tests and goodness of fit in the analysis of covariance structures', *Psychological Bulletin*, 88, 588-606.
- Bentler, PM 1990, 'Comparative fit indexes in structural models', *Psychological Bulletin*, 107, 238-246.
- Bies, RJ & Moag, JS 1986, 'Interactional Justice: Communication criteria of fairness', in RJ Lewicki, BH Sheppard & BH Bazerman (eds.), *Research on Negotiation in organizations*, vol. 1, JAI Press, Greenwich, CT, pp. 43-55.
- Bollen, KA 1989, *Structural equations with latent variables*, Wiley, New York.
- Brockner, J & Wiesenfeld, BM 1996, 'An integrative framework for explaining reactions to decisions: Interactive effects of outcomes and procedures', *Psychological Bulletin*, 120, 189-208.
- Browne, MW & Cudeck, R 1992, 'Alternative ways of assessing model fit', *Sociological Methods & Research*, 21, 230-258.
- Chen, CC 1995, 'New trends in reward allocation preferences: A Sino-U.S. comparison', *Academy of Management Journal*, 38, 408-428.
- Colquitt, JA, Conlon, DE, Wesson, MJ, Porter, COLH & Ng, KY 2001, 'Justice at the millennium: A meta-analytic review of 25 years of organizational justice research', *Journal of Applied Psychology*, 86, 425-445.
- Crampton, SM & Wagner, JA 1994, 'Percept-Percept inflation in microorganizational research: An investigation on prevalence and effect', *Journal of Applied Psychology*, 79, 67-76.
- DeGroot, T, Kiker, DS & Cross, TC 2000, 'A meta-analysis to review organizational outcomes related to charismatic leadership', *Canadian Journal of Administrative Sciences*, 17, 356-371.
- Deutsch, M 1975, 'Equity, equality, and need: What determines which value will be used as the basis of distributive justice?', *Journal of Social Issues*, 31, 137-50.
-

- 
- Eby, LT, Freeman, DM, Rush, MC & Lance, CE 1999, 'Motivational bases of affective organizational commitment: A partial test of an integrative theoretical model', *Journal of Occupational and Organizational Psychology*, 72, 463-483.
- Eisenberger, R, Ameli, S, Rexwinkel, B, Lynch, PD & Rhoades, L 2001, 'Reciprocation of perceived organizational support', *Journal of Applied Psychology*, 86, 42-51.
- Eisenberger, R, Fasolo, P & Davis-LaMastro, V 1990, 'Perceived organizational support and employee diligence, commitment and innovation', *Journal of Applied Psychology*, 75, 51-59.
- Eisenberger, R, Huntington, R, Hutchison, S & Sowa, D 1986, 'Perceived organizational support', *Journal of Applied Psychology*, 71, 500-507.
- Erez, M & Earley, PC 1993, *Culture, self-identity, and work*, Oxford University Press, New York.
- Fischer, R & Smith, PB 2004, 'Values and organizational justice: Performance and seniority-based allocation criteria in UK and Germany', *Journal of Cross-Cultural Psychology*, in press.
- Fischer, R. (2004). Organizational reward allocation principles: Testing organizational and cross-cultural differences. *International Journal for Intercultural Relations*, 28, 151-164.
- Fischer, R 2004, 'Standardization to Account for Cross-Cultural Response Bias: A Classification of Score Adjustment Procedures and Review of Research in JCCP', *Journal of Cross-Cultural Psychology*, 35, 263-282.
- Flanagan, JC 1954, 'The critical incident technique', *Psychological Bulletin*, 51, 327-358.
- Foa, UG & Foa, EB 1974, *Societal structures of mind*, CC Thomas, Springfield, IL.
- Gaertner, KN & Nollen, SD 1989, 'Career experiences, perceptions of employment practices and psychological commitment to the organization', *Human Relations*, 42, 975-991.
- Gilliland, SW 1993, 'The perceived fairness of selection systems: An organizational justice perspective', *Academy of Management Review*, 18, 694-734.
- Glisson, C & Durich, M 1988, 'Predictors of Job satisfaction and Organizational commitment in Human Service Organizations', *Administrative Science Quarterly*, 33, 61-81.
- Greenberg, J 1990, 'Organizational Justice: Yesterday, today and tomorrow', *Journal of Management*, 16, 399-432.
- Greenberg, J 1993, 'The social side of fairness: Interpersonal and informational classes of organizational justice', in R Cropanzano (ed.), *Justice in the workplace: Approaching Fairness in Human Resource Management*, pp. 79-103.
- Hochwarter, WA, Kacmar, C, Perrewe, PL & Johnson, D 2003, 'Perceived organizational support as a mediator of the relationship between politics perceptions and work outcomes', *Journal of Vocational Behavior*, 63, 438-456.
-

---

Howell, DC 1997, *Statistical methods for psychology*, Duxbury Press, Belmont, CA.

Hu, L & Bentler, PM 1999, 'Cutoff criteria for fit indices in covariance structure analysis: Conventional versus new alternatives', *Structural Equation Modeling*, 6, 1-55.

Ironson, GH, Smith, PC, Brannick, MT, Gibson, WM & Paul, KB 1989, 'Construction of a job in general scale: A comparison of global, composite and specific measures', *Journal of Applied Psychology*, 74, 193-200.

Jones, FF, Scarpello, V & Bergmann, T 1999. 'Pay procedures-what makes them fair?', *Journal of Occupational and Organizational Psychology*, 72, 129-145.

Kanfer, R 1990, 'Motivation Theory and Industrial and Organizational Psychology', in MD Dunnette & LM Hough, *Handbook of Industrial and Organizational Psychology*, vol. 1, 2<sup>nd</sup> edn), Consulting Psychologists Press, Palo Alto, CA, 75-170.

Klein, KJ, Dansereau, F & Hall, RJ 1994, 'Level issues in theory development, data collection and analysis', *Academy of Management Review*, 19, 195-229.

Ko, JW, Price, JL & Mueller, CW 1997, 'Assessment of the Meyer and Allen's three-component model of organizational commitment in South Korea', *Journal of Applied Psychology*, 82, 961-973.

Leung, K, Smith, P B, Wang, Z & Sun, H 1996, 'Job satisfaction in Joint venture hotels in China: An organizational justice analysis', *Journal of International Business Studies*, 27, 947-62.

Leventhal, GS 1980, 'What should be done with equity theory? New approaches to the study of fairness in social relationships', in KJ Gergen, MS Greenberg & RH Willis (eds.), *Social exchange: Advances in theory and research* Plenum, New York, 27-54.

Lind, EA 2001, 'Fairness heuristic theory: Justice judgments as pivotal cognitions in organizational relations', in J Greenberg & R Cropanzano (eds.), *Advances in organizational justice*, Stanford University Press, Stanford, CA, 56-88.

Long, JS 1983a, *Confirmatory factor analysis*, Sage University Paper No. 33, Sage, Newbury Park, CA.

Marsh, HW, Balla, JR & McDonald, RP 1988, 'Goodness of fit indexes in confirmatory factor analysis: The effect of sample size', *Psychological Bulletin*, 103, 391-410.

Mathieu, JE & Farr, JL 1991, 'Further evidence for the discriminant validity of measures of organizational commitment, job involvement and job satisfaction. *Journal of Applied Psychology*, 76, 127-133.

Mathieu, JE & Zajac, DM 1990, 'A review and meta-analysis of the antecedents, correlates and consequences of Organizational Commitment', *Psychological Bulletin*, 108, 171-194.

- 
- McFarlin, DB & Sweeney, PD 1992, 'Distributive and procedural Justice as predictors of satisfaction with personal and organizational outcomes', *Academy of Management Journal*, 35, 626-637.
- Meyer, JP 1997, 'Organizational commitment', in CL Cooper & IT Robertson (eds.), *International Review of Industrial and Organizational Psychology*, 12, John Wiley & Sons, pp. 175-228.
- Meyer, JP, Allan, NJ & Smith, CA 1993, 'Commitment to Organizations and Occupations: Extension and Test of a Three-Component Conceptualization', *Journal of Applied Psychology*, 78, 538-551.
- Moorman, RH 1991, 'Relationship between Organizational justice and organizational citizenship behaviors: Do fairness perceptions influence employee citizenship?', *Journal of Applied Psychology*, 76, 845-55.
- Mulaik, SA, James, LR, Van Alstine, J, Bennett, N, Lind, S & Stilwell, CD 1989, 'Evaluation of goodness of fit indices for structural equation models', *Psychological Bulletin*, 105, 430-445.
- Porter, LW, Steers, RM, Mowday, RT & Boulian, PV 1974, 'Organizational commitment, job satisfaction, and turnover among psychiatric technicians', *Journal of Applied Psychology*, 59, 603-609.
- Riketta, M 2002, 'Attitudinal organizational commitment and job performance: a meta-analysis', *Journal of Organizational Behaviour*, 23, 257-266.
- Ronen, S & Shenkar, O 1985, 'Clustering countries on attitudinal dimensions: A review and synthesis', *Academy of Management Review*, 10, 80-107.
- Schaubroeck, J, May, DR & Brown, FW 1994, 'Procedural justice explanations and employee reactions to economic hardship: A field experiment', *Journal of Applied Psychology*, 79, 455-460.
- Schein, EH 1990, 'Organizational culture', *American Psychologist*, 45, 109-119.
- Schmidt, K-H, Hollmann, S & Sodenkamp, D 1998, 'Psychometrische Eigenschaften und Validität einer deutschen Fassung des "Commitment"-Fragebogens von Allen und Meyer (1990)', *Zeitschrift für Differentielle und Diagnostische Psychologie*, 19, 93-106.
- Sweeney, PD & McFarlin, DB 1993, 'Workers' evaluation of the "ends" and the "means": An examination of the models of distributive justice and procedural justice', *Organizational Behavior and Human Decision Processes*, 55, 23-40.
- Thoresen, CJ, Kaplan, SA, Barsky, AP, Warren, CR & de Chermont, K 2003, 'The affective underpinning of job perceptions and attitudes: A meta-analytic review and integration', *Psychological Bulletin*, 129, 914-945.
-

Tyler, TR & Blader, SL 2003, 'The group engagement model: Procedural justice, social identity and cooperative behavior', *Personality and Social Psychology Review*, 7, 349-361.

Tyler, TR & Lind, EA 1992, 'A relational model of authority in groups', in MP Zanna (ed.), *Advances in Experimental Social Psychology*, vol. 25, Academia Press, San Diego, CA, 115-191.

Van den Bos, K, Lind, EA, Vermunt, R & Wilke, HAM 1997, 'How do I judge my outcome when I do not know the outcome of others? The psychology of the fair process effect', *Journal of Personality and Social Psychology*, 72, 1034-1046.

Van Vugt, M & Hart, CM. 2004, 'Social identity as social glue: The origins of group loyalty', *Journal of Personality and Social Psychology*, 86, 585-598.

Zickar, MJ, Gibby, RE & Jenny, T 2004, 'Job attitudes of workers with two jobs', *Journal of Vocational Behavior*, 64, 222-235.