

The Role of Organizational Justice, Trust and Commitment in a Management Control System (MCS)- Gain Sharing

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Abstract

The main purpose of this study is to examine the relationship between the roles of organizational justice, trust and organizational commitment in a specific type of management control system (MCS), gain-sharing. Based on the proposed theory hypothesis, employee perceptions involving the procedural justice of the gain-sharing plan to influence the employee trust in manager's, organizational commitment and their performance. Positive perceptions of fairness and equality lead to enhance trust and organizational commitment, which, in turn, has positive consequences for the employee performance. To examine these matters, a survey technique was administered to employee in public and private bank in Ambon city. The result analysis of the Partial Least Squares approach indicates that employee perceptions regarding the fairness and equality of the gain-sharing plan are positively significant related to employee trust in manager's, organizational commitment and their performance. Further, employee trust in manager and organizational commitment has a positive influence to employee performance. Also, this study gives an evidence that there is no significant different between gender on such relationships.

Keywords: management control system, gain-sharing, organizational justice, trust, organizational commitment, performance

1. Introduction

Management control systems are topics that have been received much attention and criticism in accounting literature as well as the business management arena. Over the past 35 years, the accountancy literature has examined the influence relationships between the management control of human and social aspects also can be described as a behavioral view (Ansari, 1977; Birnberg and Snodgrass, 1988; Flamholtz et al., 1985). Merchant (1985) states that by manager's control is effectively managed to get subordinates to achieve a compatible, honest execution and good performance. However, management control would fail if the firm involves with critical financial problem (Merchant and Van Der Stede, 2007). Flamholtz et al. (1985) define the management control system by designing a set of mechanisms for the human organizations that concern with the circle of institutional goals. Broadly conceived, those mechanisms are set in a few sub-systems such as standard operating procedures, exercising rules and job description, performance measurement system and personal supervision (Flamholtz, 1983). According to Atkinson et al., (2012), the management control system, i.e., operational procedure, performance and incentive systems are for the motivational purposes for the human efforts to work more productively that align with the institutional goals.

In general, the management control is from the top executive manager level. Other researchers (Langfield-Smith, 1997; Otley, 1994) define the MCS as a contemporary organization in which the low level subordinates are strongly affected for the effectiveness of the institutional strategy. Therefore, MCS and organizational control are interchangeable. Chenhall (2003) state that accounting literatures are more likely used paradigm of contingency approach for MCS research. The effectiveness variables from MCS design for the contingency approach are such as technology, environment and structure. He also added that the successes of MCS is from few variables such as organizational trust, commitment, justice between subordinates and manager. These variables will explain on how far the effectiveness of the individual reactions in the organization towards the applications and consequences of MCS.

This study is to examine the relationship between the roles of organizational justice, trust and organizational commitment in a specific type of management control system (MCS), gain-sharing. The context of gain-sharing is would be the bonus point system that is the distribution of the production's profit to the subordinates. This context of gain-sharing in MCS would help to measure the individual performance (Chenhall and Langfield-Smith, 2003). Therefore, this study will be highlighted the conflict in MCS literatures by two research questions: (i) do the perceptions of subordinates and organizational justice in gain-sharing influence they believe on manager, commitment and performance? (ii) Does the manager and commitment of organization will influence the performance?. We extend Kennedy et al., (2009) research by adding two more variables which are the organizational commitment and performance. As far as researchers are concerned, that there is no research has been conducted in the context of gain-sharing, which is also has been pointed out by Kennedy et al., (2009). Therefore, this study is using the technique of Partial Least Squares-Structural Equation Modelling (PLS-SEM) for the data analysis. This is quite

different with Kennedy et al., (2009) approach which they are using Covariance based Structural Equation Modelling (EQS).

The paper is formed as follows: Section 2 discusses the theory and hypotheses; Section 3 explains the methodology of the PLS-SEM approach and the variables; Section 4 presents the empirical result analysis; Section 5 provides the discussion and the conclusion of the study.

2. Theory and hypotheses development

2.1. Agency theory

The preliminary research from Berle and Means (1932) has stressed out the conflict of interest between the owner and manager. This conflict in Agency theory has been obviously shown when Jensen and Meckling (1976) research appears in the literature. The managerial control plays an important to define the organizational justice and also to increase the trust, commitment and employee performance.

2.2. An attribution theory

Weiner (2006) states that an attribution theory is focused on the causes. Normally, this theory used for reporting the end result analysis or the consequence compared with the focus on reaction. According to Dirks and Ferrin (2002), employees that practice the justice in organizations would work more superior. In the relationships with MCS; the role of trust, organizational development, commitment and performance can be seen in the attribution process.

2.3. Gain-Sharing and organizational justice

Gain-sharing system is well-known in U.S and it is not exceptional in Indonesia. In this system, employee that works hard and had achieved the organization target and consequence perform a high performance will give remuneration such as bonuses. Normally, the measurement bonus is based on the organizational production. The profit financial in organizations will be divided through bonus system. In gain-sharing, the measurement performance and reward performance that gain by employees are strongly related to the justice organization (Welbourne, 1998; Welbourne et al., 1995). In the context of organizational justice literature, most of the employee requires equality and fairness from the evaluation of institution for giving the reward to their performance. In general, prior researchers differentiate the justice organization in two types, i.e., distribution and procedural justice; (i) distributional justice is more on orientated to equity theory (Adams, 1963; Deutsch, 1975). That is, the working orientation of each individual is from the input such as motivation and skills and hence comparison with the outcome that will be given for the organization such as salary and promotion; (ii) procedural justice is the perception of the rule and procedure that has been designed by the organization to evaluate the performance and reward (Thibaut and Walker, 1975). Recently, researchers have added one more dimension for organization justice that is interactional justice. This dimension has been defined as a reflection from the non-procedural justice in the context of interaction between low and executive level (Colquitt, 2001). Many researchers have related the relationship of organizational justice with few variables, such as trust, commitment, satisfaction and organizational performance (Cohen-Charash and Spector, 2001; Staley and Magner, 2007). In accountancy literature, many justice organizers had related to budgetary

slack (Libby, 2003), participatory budgeting (Latif, 2007) and budget goal commitment (Wentzel, 2002).

2.4. Organizational Trust, Commitment and Performance

Employee that trusts the leader and manager in an organization will increase the effectiveness in the working environment and hence effect to their performance. Dirks and Ferrin (2002) define trust in working environment is the acceptance of employee on all the instructions and procedures from their manager. Manager that concern on system of organizational justice would able to minimize the labour turnover in which effect from the low confidence level and commitment toward the organization. Prior researcher investigates the relationships between justice distributions (Lam et al., 2002) and procedure on employees' trust, commitment and performance (Folger and Konovsky, 1989; Greenberg, 1990). Other studies also has investigated the relationships between interactional justice and trust (Ambrose and Schminke, 2003). However, all the studies only examine the associations dimension from the context of justice in the organization. As far as we concern, no study has investigated this context of organizational justice in second-order or hierarchical model. For example, Aryee et al., (2002) and Kennedy et al., (2009) summarize that distributional justice, procedure and interaction influence positive relationships on trust. On the other hand, some researchers conclude that distributional justice and procedure influence positive relationships on organizational commitment (Aryee et al., 2002; Colquitt, 2001; Lee and Farh, 1999). There are also study highlight that Justice in organization influence a positive relationship with the worker's performance (Chenhall and Langfield-Smith, 2003; Latif, 2007; Ulupui, 2005). From the perspective of MCS in gain-sharing, organizational justice influences the relationships between (i) employee confidence towards manager and (ii) employee commitment towards the organization and finally would affect the employee performance. Sweeney and McFarlin (1997) finds that the distributional justice and procedure also differ between female and male. They conclude that the relationships between organizational justice and organization outcome, i.e., trust, commitment and performance) are higher for female gender compared to male. Therefore, based on the above, the research hypotheses can be as follows:

H1

- (a): Organizational justice has a positive relationship on trust.
- (b): Organizational justice has a positive relationship on organizational commitment.
- (d): There is a difference gender relationship between organizational justice and trust.
- (e): There is a difference gender relationship between organizational justice and organizational commitment.
- (f): There is a difference gender relationship between organizational justice and performance.
- (e): There is a difference gender relationship between organizational justice and organizational commitment.

Chenhall and Langfield-Smith (2003) states that employee to trust their own manager and a leader would influence to enhance their performance. Aryee et al., (2002) summarize that trust on manager would give a positive impact on performance. In addition, they also found that the trust on organization would also influence a positive effect on organizational commitment. The organizational commitment can be defined as the individual confidence and acceptance towards the vision and value of the organization. The employee that has a high commitment level toward their work and organization would give a huge impact on their performance (Aranya and Ferris, 1984). Therefore, the next hypotheses can be as follows:

H2: Trust has a positive relationship on performance.

H3: Organizational commitment has a positive relationship on performance.

3. Methodology

3.1. Data and Sample

This study uses the data population for employees in banking institution in Ambon city, Indonesia in public and private sector. The sampling technique is based on the non-probability sampling, that is, purposive sampling. This is because to provide a representative sample and also to avoid bias sample (Kothari 2004, p. 59; Stangor 2011, p. 113). The sampling criteria for the employees are based on the lower level that has worked for at least two years with minimal education of S1. The data collections are from the questionnaire survey.

3.2. Variable measurement

3.2.1. Organizational justice

The variable is designed by the second-order construct dimension with three constructs. First is the variable of distributional justice that has been scaled with five items of questions scale. Second is procedural justice that has been scaled with six items of questions. Those variables are being adopted by Kennedy et al., (2009). Third is the interactional variable that has been scaled with nine items of questions (Colquitt, 2001). All items that have been questioned in the variables use seven point scale likert (1 = strongly not agreed and 7 = strongly agreed).

3.2.2. Trust

The variable is designed by the first-order construct dimension with four items of questions scale (Kennedy et al., 2009). All items that have been questioned in the variables use seven point scale likert (1 = strongly not agreed and 7 = strongly agreed).

3.2.3. Organizational commitment

The variables are designed by the first-order construct dimension with six items of questions scale which using *Organizational Commitment Questionnaire (OCQ)*. This variable has been developed by Porter et al., (1974) and it has been expended by Lee and Farh (1999) and Aryee et al., (2002). All items that have been questioned in the variables use seven point scale likert (1 = strongly not agreed and 7 = strongly agreed).

3.2.4. Gender

The gender variables are designed as dummy moderation variable and it will be divided into two groups, i.e., female and male.

3.2.5. Performance

The variables are designed as first-order constructs dimensions with six items of questions scale (Aryee et al., 2002). All items that have been questioned in the variables use seven point scale likert (1 = strongly not agreed and 7 = strongly agreed).

3.3. Method Design

The method for the data analysis uses Structural Equation Modelling-Partial Least Squares (PLS-SEM). The reason for the chosen technique is as follows. First, this study is characterized as a predictive research that has a weak theory support. Second, the total samples are small. Third, the model design is a hierarchical model with extending of the second-order dimension. Before testing the hypothesis, the confirmatory factor analysis for first and second-order constructs dimension should first be tested. This is by examining the reliability and validity for each item scale with the latent variables. The convergent validation, discrimination and internal reliability consistent for the evaluation of outer model are being tested. The validation of the item scales for the reliability indicators are should be achieved more than >0.6 and the value for Average Variance Extracted (AVE) > 0.5 . Furthermore, the internal reliability consistent is tested by using the composite reliability value with rule of thumb > 0.7 (Latan and Ghazali, 2012a, 2012b, 2013). The inner model for testing the hypotheses can be examined after the evaluation of outer model has been achieved. The first step for the inner model is by considering the value of R-square for strengthening the prediction. The R-square values of 0.75, 0.50 and 0.25 shows that the model predictions are strong, moderate and weak, respectively. Then, value of f^2 partial variance (effect size) for each exogenous variables and Q^2 of the predictive validity for each endogenous variable are should be considered. The values of f^2 0.02, 0.15 and 0.35 in the structural model show that the exogenous variables are small, moderate and big, respectively. The Q^2 predictive validity that > 0 shows that there is supported for the predictive validation while if it is < 0 shows that it is not support for predictive validation (Latan and Ghazali, 2012a, 2012b, 2013). Moreover, the gender moderation variables will be tested in two phases. The first phase is by analyzed in full samples that hypothesized for H1-a to H1-c, H2 and H3. The second phase will be analyzed by sub-samples for the hypothesis of H1-d to H1-f by using multigroup analysis (PLS-MGA). Those tested hypotheses are based on the significant level of 0.05 with the support of the WarpPLS 3.0 full version.

4. Data analysis and discussion

This study conducted with survey of 100 questionnaires to the banking institution in Ambon city, Indonesia. The questionnaires in bank institution have been distributed with 10 questions. However, the survey that able to collect from the respondents are about a total of 63 questionnaires and five of them are not provided with a complete answered. Therefore, the total data sample for the data analysis is 58 samples with ratios of return feedback of 63%. This samples enough for a data analysis in PLS-SEM with total minimum measurement of 10

times of path coefficients in the structural model. This study has five path coefficients hence the minimum sample in the model would be 50. Nevertheless, PLS-SEM technique is able to composite with the smaller samples (Wold, 1982; Wold, 1985). Table 1 shows the characteristics of the respondent that is as follows.

Table 1 Characteristic of the respondents

No.	Characteristics	Total	Percentage
1.	<u>Gender:</u>		
	a. Male	33	56.90 %
	b. Female	25	43.10 %
2.	<u>Education level:</u>		
	a. Grade 1 (S1)	51	87.93 %
	b. Grade 2 (S2)	7	12.07 %
3.	<u>Working experience:</u>		
	a. 5 - 9 years	26	44.83 %
	b. 10 - 15 years	21	36.21 %
	c. 16 - 20 years	11	18.96 %
Total		58	100 %

Based on the Table 1 above, there are a total of 33 male respondents and remaining of 25 respondents are the female gender. These two groups of the sample will be divided into two for the further analysis of PLS-MGA using *measurement invariance*. The majority of the education level is grade 1 (S1) with working experience of 5 to 9 years. Therefore, the characteristics of the sample have been fulfilled.

4.2. Outer Model Evaluation

Chin (2010) suggests to report the PLS by two step approach. First, focus on the result of outer model analysis or measurement model. Second, focus on the inner model analysis or structural model. Tables 2 and 3 are the measurement results of the outer model. There are as follows:

Table 2 Measurement model

Latent construct	Dimension construct	Items	Indicator reliability	AVE	Composite reliability
A. Organizational justice (OJ)	Distributional justice (DJ)	KD1	0.69	0.54	0.853
		KD2	0.856		
		KD3	0.681		
		KD4	0.708		

	Procedural				
	justice (PJ)	KD5	0.725		
		KP3	0.829		
		KP4	0.643	0.562	0.836
		KP5	0.819		
	Interaction				
	justice (IJ)	KP6	0.69		
		KI5	0.794		
		KI6	0.86	0.655	0.903
		KI7	0.848		
		KI8	0.893		
		KI9	0.622		
B. Trust (T)		T1	0.762		
		T2	0.824	0.581	0.847
		T3	0.71		
		T4	0.749		
C. Organization					
commitment (OC)		KO2	0.834		
		KO3	0.885		
		KO4	0.906	0.679	0.913
		KO5	0.763		
		KO6	0.715		
D. Performance (P)		K3	0.831		
		K4	0.867	0.81	0.944
		K5	0.969		
		K6	0.926		

Note: The item measurement that is not valid has been drop and the model has been re-analysis.

Table 3 Discrimination validity

	DJ	PJ	IJ	T	OJ	P
DJ	(0.735)	0.290	0.072	0.386	0.262	0.401
PJ	0.290	(0.750)	0.237	0.317	0.194	0.414
IJ	0.072	0.237	(0.809)	0.418	0.341	0.419
T	0.386	0.317	0.418	(0.762)	0.400	0.594
OJ	0.262	0.194	0.341	0.400	(0.824)	0.442
P	0.401	0.414	0.419	0.594	0.442	(0.900)

Note: Square Root AVE is shown in the diagonal line.

According to the outer model analysis in Tables 2 and 3 above, the characteristic requirements for the measurement model is fulfilled for the next step of PLS analysis.

4.3. Inner Model Evaluation

The construct of organizational justice is designed as a second-order construct dimension thus, it is considered as latent variable for the inner model analysis. There are three indicators construct dimensions for an organization justice’s construct (Latan and Ghozali, 2013). Then, the measurement of GOF can be calculated as *average AVE x average R²*. The collinearity problem can be observed from *Full Collinearity Variance Inflation Factor (VIF)*. The value of VIF that has been suggested is <3.3 for establishing a consistent estimation. The VIF value also can avoid the bias for the method (Kock and Lynn, 2012). The WarpPLS 3.0 program is set for the inner model estimation by using the PLS regression algorithm with the resampling procedure about 500. The Tables 4 and 5 below are the result of the inner or structural model estimations.

Table 4 Inner model analysis

Latent Variables	Adjusted R ²	Effect size (f ²)	Predictive validity Q ²	GoF Tenenhaus	VIF
Organizational justice -> Trust	-	0.278	-	-	
Organizational justice -> organizational commitment	-	0.140	-	-	1.666
Organizational justice -> performance	-	0.197	-	-	
Trust	0.278	0.206	0.276	-	1.713
Organizational commitment	0.140	0.079	0.147	-	1.306
Performance	0.481	-	0.485	0.437193	1.927

Table 4 shows that there is a good estimation for R² and f² value. The value of Q² also shows a satisfactory result > 0 indicates that the model has a predictive validity. The GoF value shows 0.437 > 0.36 that indicates the model is fit (Latan and Ghozali, 2012b). The VIF for all constructs are < 3.3 indicates that there is no vertical problem of collinearity and bias method (CMV).

4.3.1. Hypotheses testing

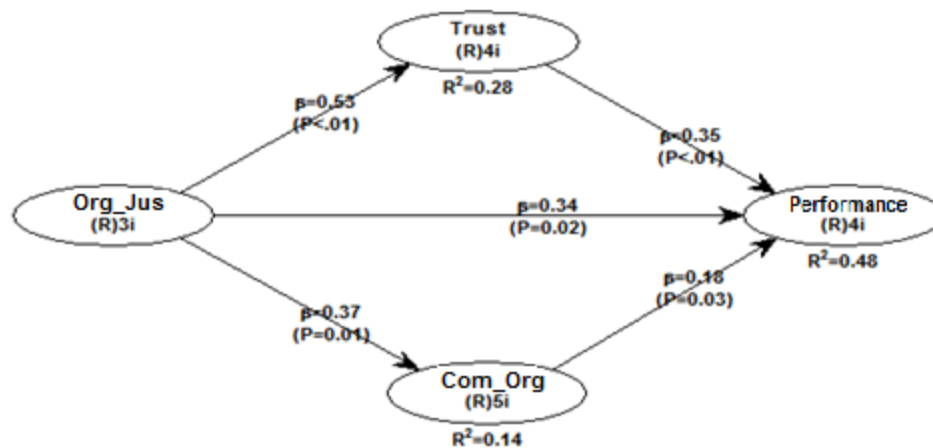


Figure 1. Path diagram of WarpPLS 3.0 analysis

Table 5 Significance estimation

Relationship	Standard error	P-value	Sig. Direct Effect	Sig. Indirect Effect
Organizational justice -> trust	0.210	0.007	Yes	-
Organizational justice -> organizational commitment	0.167	0.015	Yes	-
Organizational justice -> performance	0.165	0.023	Yes	-
Trust -> performance	0.133	0.006	Yes	-
Organizational commitment -> performance	0.093	0.030	Yes	-
Organizational justice -> trust -> performance	0.128	0.029	-	Yes
Organizational justice -> organizational commitment -> performance	0.128	0.029	-	Yes

Table 5 shows that there is a significant relationship for the hypothesis of H1a, H1b, H1c, H2. The results support the prior research (Aryee et al., 2002; Chenhall and Langfield-Smith, 2003; Colquitt, 2001; Kennedy et al., 2009; Lam et al., 2002; Latif, 2007; Lee and Farh, 1999; Ulupui, 2005). The banking institutions that apply MCS system in the context of gain-sharing, i.e., organizational justice will increase the employee's trust on manager and hence increase the employee's commitment to the organization. This would lead the employees to feel work hard and hence enhance their performance. In this study provide an additional contribution to the literature that trust and organizational commitment to act as a mediator variable, i.e., partial mediation effect between organizational justice and performance. This can be seen in the Table 5 that there are significant of indirect effect on such effects. In addition, the three constructs dimension, i.e., distributional justice, procedural justice and interaction justice contributes to turns as a second-order constructs in the organizational justice. Furthermore, to test the hypotheses of H1d, H1e, H1f, the multigroup analysis is used in which two differences sample group of gender, i.e., male and female divided into two groups. Table 6 shows that the group sample for both samples are differing thus the PLS-MGA is examine used as measurement *invariance*.

Table 6 Measurement invariance

Group	1 β	2 β	1 <u>S.E</u>	2 <u>S.E</u>	1 <u>Prob</u>	2 <u>Prob</u>	Diff
Relationship							
Organizational justice -> trust	0.637	0.473	0.549	0.266	0.127	0.044	Yes
Organizational justice -> organizational commitment	0.294	0.503	0.239	0.291	0.114	0.049	Yes
Organizational justice-> performance	0.538	0.92	0.43	0.186	0.11	0.156	Yes
Trust -> performance	0.175	0.142	0.227	0.227	0.224	0.269	Yes
Organizational commitment -> performance	0.033	0.568	0.12	0.24	0.391	0.013	Yes

Table 6 shows the *measurement invariance* that can be summarized that both variances are

different. Because of the group samples are at invariance so we will use Smith-Satterwaite test to examine the multigroup analysis. Smith-Satterwaite test (hereafter SST) is less assumptions in which not necessary the data to be normal and group samples can be differ (*invariance*). The path coefficients and t-statistics can be computed as follows.

$$t = \frac{\bar{\theta}^{(1)} - \bar{\theta}^{(2)}}{\sqrt{\frac{n^{(1)} - 1}{n^{(1)}} se_{\theta^{(1)}}^2 + \frac{n^{(2)} - 1}{n^2} se_{\theta^{(2)}}^2}}$$

Where: $\bar{\theta}^{(1)}$ is the path coefficients for the group 1 (male), $\bar{\theta}^{(2)}$ is the path coefficients for the group sample 2 (female), $se_{\theta^{(1)}}^2$ is the standard error for the group 1 (male) and, $se_{\theta^{(2)}}^2$ is the standard error for the group 2 (female). The result of the Smith-Satterwaite test is in Table 7.

Table 7 Smith-Satterwaite Test

Relationship	SST (T-statistic)	SST (P-value)	Sig.
Organizational justice -> trust	-0.1511	0.440	No
Organizational justice -> organizational commitment	-1.066	0.145	No
Organizational justice -> performance	-1.457	0.075	No

Table 7 shows that hypothesis H1d, H1e, H1f is not significant. Meaning that there is no significant difference between the perception of organizational justice on trust, commitment and performance across gender. Our findings are inconsistent with the line Sweeney and McFarlin (1997) that claim the organizational justice across gender (i.e., male and female) are differ. We assume that the difference result is due to the year differ as Sweeney and McFarlin (1997) using year of 1980. We also assume that the country diversifies might tend to influence the difference consequent. Therefore, we suggest that the Indonesian bank institution across gender has the same perception of the management control system (MCS), gain-sharing.

5. Conclusions and future studies

This study is to examine the relationship between the roles of organizational justice, trust and organizational commitment in a specific type of management control system (MCS), gain-sharing. This study focuses the banking institution in Kota Ambon, Indonesia with surveys of 100 questionnaires. We find that perception employee on organizational justice in gain-sharing arena is significantly positive with the manager, organizational justice and performance. Thus, the institutional banking in Ambon city that has apply MCS in the context of gain sharing has truly paid attention to the justice among the employees and manager and consequently their commitment would boost the organizational performance. This is consistent with the line of the firm's objectives to obtain a superior earnings and

administration. In addition, the employees seem to have a strong trust on their manager and this would give a benefit to the firm as the employees are able to accept all the task and direction from their managers. We find that the firm improvement is due to the obligation and commitment that has been carried out between employees and managers. We also find that the trust and organizational commitment is acting a mediator variable for the relationship between organizational justice and performance. Thus, this implication gives a strong evidence that the justice and performance is not a direct effect, but it is through the trust and commitment.

In this study, we use common method bias in which only looks at the full collinearity VIF. In particular, the bias is due to the same variance method that has influenced the correlation among variables. This is commonly happening in the technique of self-report that has been conducted through questionnaire survey. Eventhough, the bias is small but it might affect the correlation and significant level. Doty and Glick (1998) and Podsakoff et al. (2003) claim that the bias should be controlled to avoid the result manipulation that could lead to type error 1 and II. We suggest more research to be done as we only analyze the cross-section analysis and there is a missing data involved due to the survey questionnaire method. The moderation variable could also pay attention to examine the organizational structure in order to strengthen the model framework across sectors. We do find that there is no differ across gender on our model framework. But, we do not focus on the organizational outcome. Lee and Farh (1999) find that there is no differ across gender in the relationship between organizational trust and outcome. So, we are strongly recommended to add more variable such as the outcome indicator that could focus more on the bonus, turnover intention and intention to leave. So, it would be interested to extend on such relationship. Future studies should pay attention on using the panel data or time series to examine further on the model framework.

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