Department of Industrial Engineering and Management

Reflections of Systemic Justice?

Employees' and Supervisors' Experiences of Injustice in the Performance Appraisal and Merit Pay Context

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A'' Aalto University

DOCTORAL DISSERTATIONS

Reflections of Systemic Justice?

Employees' and Supervisors' Experiences of Injustice in the Performance Appraisal and Merit pay Context.

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Abstract

The perceptions of justice are important when the adequacy of performance appraisal and merit pay systems are evaluated. It has been suggested that justice can be violated by the formal system itself or by individuals using the system. However, previous definitions do not consider how these different sources are related to each other. In addition, previous justice research has mainly focused on the "receiver" point of view and has ignored the viewpoint of those responsible for unfair or fair actions. This dissertation sheds light on these research gaps by comparing employees and supervisors' experiences of injustice in the performance appraisal process. The research questions are: 1) what kinds of procedural challenges do employees and supervisors identify with respect to the performance appraisal process in the merit pay context? What are the sources of these experiences? 2) How are procedural challenges identified by employees and supervisors related to the procedural and interactional justice rules defined in the literature?

The data is based on semi-structured interviews with 48 employees and 24 supervisors collected from three government sector organizations. The method of the data analysis was a combination of an inductive grounded theory and more theory-driven approaches. Thus, in addition to theoretical contributions, this dissertation also makes a methodological contribution to the field by approaching the justice construct from a point of view rarely taken in previous studies. According to the results, experiences of injustice were related to three main categories: measurement of performance, the link between pay and performance, and the performance appraisal interview. Supervisors were more concerned about performance measurement challenges and employees were more concerned about the interactional issues in the performance appraisal interview.Results showed that both procedural and interactional justice rules can originate from both formal and informal sources. In addition, their interrelations created injustice experiences. Based on these results, the model of systemic justice is presented. It suggests that the perception of systemic justice is affected not only by the formal rules of the system itself, but in particular, through the relations that the system has with its context and individuals using the system. Practical implications suggest that more attention should be paid on fit between pay system and its context in order to promote perceived fairness of the system.

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Tiivistelmä

Aikaisempi tutkimus on osoittanut, että kokemukset oikeudenmukaisuudesta ovat keskeisiä palkkausjärjestelmän toimivuuden kannalta. Erityisen tärkeitä ovat kokemukset menettelytavoista, joiden kautta tiettyyn palkkapäätökseen päädytään. Vaikka aikaisempi kirjallisuus on tunnistanut, että oikeudenmukaisuuden kokemus voi syntyä sekä virallisista että epävirallisista lähteistä, tähän liittyvä tutkimus on ollut vähäistä. Edelleen on epäselvää, miten nämä eri lähteet eroavat toisistaan ja mitkä ovat niiden keskinäiset suhteet. Lisäksi aikaisempi tutkimus ei ole huomioinut riittävästi eri toimijoiden oikeudenmukaisuuden kokemuksia. Erityisesti esimiesten näkökulmaa on tutkittu vähän. Tässä tutkimuksessa selvitetään näitä tutkimusaukkoja laadullisin menetelmin, joka on harvinainen tutkimusote aikaisemmassa oikeudenmukaisuustutkimuksessa.

Tutkimus tarkastelee työntekijöiden ja esimiesten työsuorituksen arviointiin liittyviä kokemuksia menettelytapojen oikeudenmukaisuuden teorioiden valossa. Työssä selvitettiin 1) millaisia menettelytapojen haasteisiin liittyviä kokemuksia (syyt ja lähteet) työntekijöillä ja esimiehillä on työsuorituksen arviointiprosessiin liittyen. 2) miten kirjallisuudessa esitetyt menettelytapojen oikeudenmukaisuussäännöt liittyvät näihin kokemuksiin.Tutkimuksen aineisto koostui 48 työntekijä- ja 24 esimieshaastattelusta, jotka kerättiin kolmesta julkishallinnon asiantuntijaorganisaatiosta. Aineiston analyysisi tehtiin kaksivaiheisesti sekä aineistolähtöistä (Grounded theory) että teoriaohjaavaa analyysiä hyödyntäen. Tulosten mukaan epäoikeudenmukaisuuden kokemukset työsuorituksen arvioinnissa liittyvät joko 1) työsuorituksen mittaamiseen, 2) arviointien ja palkan väliseen kytkentään tai 3) työsuorituksen arviointihaastatteluun. Esimiehet ja työntekijät tunnistivat lähes samat haasteet mutta painottivat niitä eri tavoin. Tutkimustulokset osoittavat, että palkkausjärjestelmäkontekstissa haasteiden lähteitä ei voida yksiselitteisesti määritellä. Kyse on pikemminkin virallisten ja epävirallisten järjestelmien ja toimijoiden keskinäisten suhteiden yhteensopimattomuudesta. Työ esittää systeemisen oikeudenmukaisuuden mallin, jossa systeeminen oikeudenmukaisuus määrittyy sekä järjestelmän virallisten sääntöjen että yksilötason soveltamisprosessien kautta. Tulosten käytännön merkitys korostaa kontekstin ja palkkausjärjestelmän yhteensovittamisen tärkeyttä järjestelmien oikeudenmukaisuutta määrittelevänä tekijänä.

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1. Introduction

"Paved with good intentions, but…"

This was the phrase that I heard many times when I entered the world of performance appraisals and merit pay systems in Finnish central government sector organizations. In that sector, the role of pay and pay systems has changed radically over the last ten years. The changes reflect an international trend sometimes referred to as "strategic pay", in which pay is seen as an important strategic management tool for an organization. Following that trend, the whole central government sector reformed its pay systems during the 2000s in order to increase the productivity and competitiveness of the state as an employer.

Pay reform changed the structure of the individual pay bases. The demands of the job and individual performance have a greater influence on monthly pay than in the old seniority-based pay systems. One central goal of the reform was to promote the fairness of the pay system. Thus, the goal for "fair pay and a pay system" was (and is) written down in the pay policies of every government sector organization.

I had a great opportunity to learn more about these pay systems in my work as a researcher on Aalto University's program of rewarding. It soon became evident to me that pay issues were not an easy task. Every time the word "pay system" was brought up, the words "fairness" or "justice" were nearly always mentioned. In particular, they were referred with the use of the words "unfairness" or "injustice". This surprised me. The particular pay systems, also adopted in the government sector, seemed to represent fairness very well: better performance should lead to better pay. What's the problem then? Luckily, my research group was also interested in the question and we started to carry out interviews on the topic.

I soon noticed that the negative experiences might be more salient to individuals than positive experiences. Interviewees usually described the challenges of the appraisal and pay system vividly. In contrast, positive experiences were more rarely voiced. Maybe things had gone as expected. When I asked more about the negative experiences, I heard various descriptions: somebody's boss had been disrespectful in the last performance appraisal, somebody's performance was not evaluated correctly, or appraisals had no influence on salaries due to the low pay budget. I soon realized that challenges of justice can take many forms. Some blamed the pay system, whilst others considered their supervisor incompetent. There seemed to be many pieces in the puzzle that created perceptions of the fair or unfair pay system.

These differences in justice perceptions have fascinated me ever since. Many kinds of questions have confused me: What issues are important when individuals are making their fairness judgments? What is the role of formal rules? What is the role of individuals implementing those rules? What kinds of implications do perceptions of justice have in organizations in general and in the pay system context in particular?

These questions form the starting point for this thesis. They are approached through the interviews carried out in the Finnish central government sector organizations. Thus, in general, this dissertation is about perceptions of fairness, its challenges, pay systems and performance appraisals. These topics are usually highly relevant for any organizational practitioner but more importantly, they are also fiercely debated in academic discussion. Consequently, the primary goal of this dissertation is, of course, to participate and contribute to that academic discussion. However, I also hope that my thesis has practical implications for those struggling with these important issues.

In the next chapter, I will move to a more theoretical discussion about justice, appraisals and merit pay. I will also describe the research problems and the structure of this thesis.

1.1 Research problem and structure of the thesis

The terms pay, compensation and rewards can be used interchangeably to refer to the pure financial returns that employees receive from the organization for their contributions (Milkovich & Newman 2005; Martocchio 2006; Beaten & Verbruggen 2007). Thus, the term "pay" usually relates to at least two aspects: those of an employer and those of an employee. It has been suggested that successful pay system binds together the interests of both (Lawler 2000; Gerhart & Rynes 2003; Gerhart, Rynes & Fulmer 2009).

From the organizations' perspective, the interest is to get enough returns in exchange for the pay employees receive. From this point of view, a successful pay system directs and motivates individuals to attain goals set by the organization (Heneman, Ledford & Gresham 2000). Thus, individuals are paid for performance, qualities or skills that are important to the organization. On the other hand, individuals' willingness to act according to the set goals is dependent on the perceived fairness[1] of the pay system. These perceptions are critical with respect to the success or the failure of the pay system (Gerhart et al. 2009; Heneman & Werner 2005).

From these perspectives, merit pay and performance appraisal systems seem to be based on sound ideas. Merit pay is an individual-level pay, typically defined as an increase in an employee's monthly salary on an annual basis. It is based on performance, usually assessed by an employee's immediate supervisor. Like all pay-for-performance plans, merit pay connects individual performance to pay and, at least theoretically, forges a link between pay expenditure and individual productivity (Gerhart, Rynes & Fulmer 2009, 261; Heneman 1992, Heneman & Werner 2005). In addition, several human motivation theories emphasize the role of a clear link between performance and rewards in order to sustain work motivation (e.g. Stajkovic & Luthans 1997; Vroom 1964; Locke & Latham 1990).

However, previous research has shown that one of the most challenging aspects of human resource management might be to implement a successful and fair merit pay and performance appraisal system (Martocchio 2006,

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[1] The concepts of justice and fairness are used interchangeably in this thesis as they are by most social scientists (see e.g. Konovsky 2000, 489; Greenberg & Colquitt 2005, xi).

129; Campbell, Campbell & Chia 1998; Heneman & Werner 2005; Ingraham 1993, Kellough & Lu 1993; Perry, Mesch & Paarlberg 2006; Perry, Engberg & Jun 2009). In addition, research findings on pay-for-performance plans are contradictory and academic scholars disagree to a considerable extent about the effect of these plans (for example Campbell et al. 1998; Kohn 1993; Meyer 1975; Jenkins, Mitra & Gupta 1998; Pfeffer 1998; Guzzo, Jette & Gatzel 1985; Locke, Feren, McCaleg, Shaw & Denny 1980; Heneman & Werner 2005). It seems that in the right circumstances, merit pay can lead to overall increases in motivation and performance. However, merit pay may also fail to achieve its objectives (Gerhart & Rynes 2003; Gerhart et al. 2009). Usually the reasons are suggested to involve the poor implementation of the system (Campbell et al. 1998).

One possible way to understand why implementation issues are so crucial comes from the literature on organizational justice. At one level, pay systems are perceived as fair when they meet the criteria of fair pay for fair work. These distributive justice concerns (e.g. Adams 1963; Deutsch 1985) refer to the perceived fairness of the outcomes received. Usually, individuals prefer distributions based on equity norms regarding pay (Marsden & Richardson 1994; LeBlanc & Mulvey 1998; Mamman 1997; Dickinson 2006), which includes the idea that individuals should receive pay relative to their contributions. Thus, at least in theory, merit pay and performance appraisals are based on ideas of distributive justice.

In addition to distributive concerns, there are also other justice concerns that modify individuals' perceptions of justice. These "process" concerns are the key focus of this thesis. Previous literature has shown that individuals are concerned about procedural justice (Leventhal 1980; Thibaut & Walker1975; Lind & Tyler 1988), in other words, the process through decisions are made. Findings have suggested that procedural concerns might matter more to individuals than distributive, outcome concerns. This implies that individuals may accept a less favorable outcome if the process delivering the outcome is perceived as fair (for example Brockner & Wiesenfeld 1996; Folger & Konovsky 1989; McFarlin & Sweeney 1992). In the merit pay context, one procedural justice concern is related to the performance appraisal process, i.e. the process in which employees' performance is appraised and linked to the pay outcome. Consequently, the fairness of performance appraisals has been shown to have a fundamental effect on the individual-level attitudes and overall pay system success (e.g. Taylor, Tracy, Renard, Harrison & Carrol 1995).

In addition to procedural justice, individuals are also concerned about interactional justice (Bies-Moag 1986; Greenberg 1993). This third justice type refers to the quality of the interpersonal treatment received during the decision making process. As with procedural justice, it is likely that whether or not individuals find pay system and appraisals fair and satisfying is significantly impacted by their perceptions of interactional justice.

In recent decades, a great deal of research has been conducted on both concepts of justice as well as merit pay and performance appraisals. From that research we know that justice is an important phenomenon to individuals and it has fundamental consequences for both individuals and organizations (e.g. Cohen-Charash & Spector 2001; Colquit et al. 2001; Viswesvaran & Ones 2002). In addition, we know that merit pay plans can be well designed but still ineffective if they are poorly used (e.g. Gerhart & Rynes 2003; Gerhart et al. 2009; Heneman 1992; Heneman & Werner 2005). The poor use of systems, in turn, can be understood from the justice approach as challenges of procedural justice and interactional justice.

However, there are some significant gaps in the literature. The first gap is related to the sources of procedural and interactional justice. Previous literature has suggested that these justice types can be violated by both formal system itself or individuals using the system (Blader and Tyler 2003[a&b]; Colquitt et al. 2001; Colquitt & Shaw 2005). What has been missing is the proper understanding of the dynamic interrelations that these different forms of sources may have.

These are particularly important questions in the merit pay and performance appraisal context, where perceptions of procedural and interactional fairness are likely consequences of both formal aspects of the pay system and individual agents using the system. One of the most frequent calls in the strategic human resource management literature has been for research that will help illuminate the "black box" between various HR practices and organizational outcomes (Rynes et al. 2005; Gerhart et al. 2009; Levy & Williams 2004). Gaining a more profound understanding about the procedural and interactional injustice experiences and their sources in the performance appraisal process contributes to this demand.

The second gap is related to different stakeholders' perceptions of justice. In particular, the "giver" perceptive, in other words those of supervisors, has been mainly neglected in the previous literature on justice (Scott, Colquitt & Paddock 2009) as well as in the literature on pay and appraisal (Levy & Williams 2004; Beer & Cannon 2004). Finally, the third gap is

related to the methodological approach of this study. When looking back at the justice literature, there have been only few attempts to gain a more profound picture of individuals' experiences of injustice using a qualitative approach (Sounders 2006; Fortin 2008).

Consequently, the general aim of this thesis is to increase our understanding of the challenges of justice in the performance appraisal process defined by different groups. I take an open approach to this aim by 1) focusing on procedural challenges and their sources in the performance appraisal process identified by supervisors and employees, and 2) connecting these challenges to the justice concepts defined in the previous literature (in particularly to the procedural and interactional justice rules). I adopt a qualitative grounded theory approach to answer the first research questions in order to gain a rich and profound understanding of the phenomena. However, with respect to the second research question, I will use more theoretically driven analysis when I connect my findings to the previous justice literature.

I intentionally explore individuals' experiences of *injustice* by focusing on procedural challenges that individuals face during performance appraisals. Although the research usually talks about the psychology of fairness, they are actually unfair events that affect lay people's reactions more strongly than fair ones (Gilliland, Benson & Schepers 1998; Bies 2005). People have standards or expectations concerning fairness and fair processes. When unfair events or experiences strongly violate these standards, justice as a construct becomes salient. This suggests that justice and injustice might be asymmetrical, and that this relationship might need to be taken into account when researching justice (Folger & Cropanzano 1998; Harlos & Pinder 1999; Van den Bos 2005; Bies 2005).

This thesis consists of the following elements: In Chapter 2, I will go through the background for linking pay to performance, merit pay and the contradicting opinions related to them. This literature is reviewed extensively because it provides a background for this thesis. In Chapter 3, the key process of merit pay, that is the concept of performance appraisal, is presented. Following this, Chapter 4 introduces the concept of justice and discusses its relevance to merit pay and appraisals. The framework issues, the shortcomings of the existing literature on justice, and the focus of this thesis will be explored in Chapter 5. In addition, I will briefly discuss the philosophical assumptions underlying this study, because they create the foundation for the research questions and methodological choices of this

thesis. Consequently, the research questions are presented in Chapter 6 and in Chapter 7, I review methodological issues such as the data and methods used in this thesis. The results are presented in Chapter 8. At the end of that section (section 8.4), I present a summary of the key findings concerning both research questions. Finally, the conclusions and theoretical contribution of the results are presented and discussed in Chapter 9.

2. Background to pay-for-performance plans

In this chapter, I will describe the background and the context of this thesis. I start by describing the strategic pay approach, which refers to how compensation and pay system are currently understood. After that, the concept of pay-for-performance is introduced and I present the different forms it can take. In the last two sections, 2.3 and 2.4, the current academic discussion and findings concerning these systems are presented.

2.1 Strategic pay approach

The role of pay and pay systems as an important organizational management tool has changed dramatically since the 1980s (Heneman, Greenberger & Fox 2002). This change is due to pressure for higher performance, which has led organizations to search continually for managerial practices that will enhance organizational competitiveness or efficiency (Lawler 1990; Miceli & Lane 1991). In addition, fundamental changes in the nature of employment relationship and changes in technology, business strategy, and organizational structures are leading to increased experimentation with new strategic ways to manage human resources in organizations (e.g. Heneman, Ledford & Gresham 2000). This trend is known as strategic human resource management (Wright 1998; Wright & McMahan 1992).

Performance management is one human resource practice that has been a key topic in the strategic human resource management literature for some time (e.g. Mohrman, Resnick, West & Lawler 1990). Performance management implies a broad category of concepts and practices that are aimed at linking the management of people with institutional or organizational goals. A performance management system can include management by objectives practices, performance development and assessment and rewarding based on performance. Michael Armstrong

(2006, 1), for example, defined performance management as "a strategic and integrated process that delivers sustained success to organizations by improving the performance of people who work in them and by developing the capabilities of individual contributions and teams."

One implication of performance management connects performance with pay and rewards. In this context, a pay system is seen as one human resource practice, supporting the goal achievement of an organization via directing and motivating individuals to perform accordingly (Lawler 1996).

This tendency to link pay more directly with organizational strategic goals reflects a fundamental change in pay practices and theories (Heneman et al. 2002). Pay systems are no longer seen as administrative tools, but as strategic management tools (Beaten 2007). This "strategic pay" perspective emerged in the late 1980s. Rather than copying ready-made pay systems from competitors or focusing on the specific design or structures of pay systems inside an organization (for example, from the internal equity point of view), the attention is focused on the design of a pay system to be responsive to the needs of an organization in a wider context (Heneman & Ledford 1998; Heneman et al. 2002; Lawler 1990; Balkin, Gomez-Mejan 1987). Thus, the concern is fitting the pay system to the changing organizational environment, the goals of organizations and the goals of other human resource subsystems in the organizations (Beaten 2007; Heneman et al. 2000; Lawler 1996; Lawler 2000; Balkin & Gomez-Mejan 1987).

One key characteristic of strategic pay is that immediate supervisors have more power in pay issues than they did previously, for example in appraising employees' performance, giving feedback about performance and making pay decisions based on performance appraisals (Miceli & Lane, 1991). Earlier, when pay systems were considered mainly an administrative tool, pay systems were centralized, rarely changed and usually developed by top managers and human resource departments. The focus was typically on internal equity and pay was usually provided for time-on-the-task measures, such as seniority (Heneman, Greenberger & Fox 2002).

Consequently, many organizations in Europe and the United States have started to link rewards, particularly money, to desired behavior and performance outcomes in order to improve effectiveness (Heneman & Gresham 1998; Antoni, Baeten, Berger, Kessler, Hulkko, Neu, Vartiainen & Verbruggen 2005). This has also been the trend in Finland since the 1990s.

An example of this is an introduction of merit pay in the Finnish central and local government sectors during the 21st century (Lahti, Tarumo & Vartiainen 2004; Huuhtanen, Jämsén, Maaniemi, Lahti, Karppinen 2005; Lahti, Tarumo & Jämsen 2006; Salimäki & Nylander 2006). This reform has now been completed after more than ten years of work (State Employer's Office 1996; Tase 1997; State Employer's Office 2012).

Next the concept of pay-for-performance is discussed in more detail. After clarifying the variety of different types of pay-for-performance plans, I will move on to describe in more detail the context of this study, merit pay and performance appraisals.

2.2 Pay-for-performance plans and merit pay

The tendency to link pay to performance refers to a broad category of different kinds of compensation tactics called, for example, pay-for-performance practices (Salimäki & Heneman 2008), performance-based pay plans (Heneman & Gresham 1998), pay-for-performance programs (Gerhart & Rynes 2003) and incentive pay (Heneman & Werner 2005, 6). Despite the different names, they all refer in general to pay plans that reflect a common shift in how pay is currently understood. Where pay was previously thought of as an entitlement, in pay-for-performance plans pay is contingent on performance to some extent (Milkovich & Newman 2005). The common aim of all performance-based pay plans is to increase motivation of current employees, and attract and retain a desirable, talented workforce (Heneman, Ledford & Gresham 2000). In this thesis, I will use the terms "pay-for-performance plan" or "performance-based pay" when referring to these systems.

However, the actual technical pay system solution can take many forms (Heneman & Gresham 1998; Gerhart et al. 2009; Gerhart & Rynes 2003). Plans can vary along a minimum of three dimensions: the type of performance measure, measurement level and whether the pay component is fixed or variable. For example, a person's monthly salary is usually referred as "base pay", which is a fixed component of pay. (Mikovich & Newman 2005; Beaten & Verbruggen 2007)

Pay-for-performance plans attempt to link pay to desired behaviors or performance results either at an individual or a collective level. Measures can vary from subjective, more behavioral-oriented to more objective, result-oriented measures. Result-oriented measures are based on "hard"

measures, usually financial parameters such as sales volume, effectiveness, return on investments, etc. Objective measures are often used, for example, in industrial work, where the output is easily quantified. In contrast, subjective behavior-oriented measures can be found in any type of job because they focus on the means and behaviors that are needed to achieve certain results such as interactional skills, development ability, etc.

Performance-based pay increases can be added permanently to individual base pay or on a one-time basis, such as bonuses. They also take the form of ownership such as stocks, shares, or share options. Depending on the plan, performance appraisals and feedback are important tools in the pay distribution process. According to Salimäki and Heneman (2008), flat-rate percentage increases to all employees based on market conditions (e.g. cost of living adjustments) or pay increases based on seniority (e.g. years of service, rank, status) can be contrasted with pay-for-performance plans. Table 1 below (based on Gerhart & Rynes 2003, 185; Salimäki & Heneman 2008, 159) summarizes the different kinds of pay-for-performance plans according to the measurement level, permanence of pay and the type of performance measure.

Table 1. Pay-for-performance practices by level and attributes of performance measurement and the permanence of pay

Level of aggregation	Permanence of pay	Type of performance measure	
		Behaviors	Results
Individual	Fixed pay	**Merit Pay** Skill-based pay Competence-based pay	
	Variable pay		Individual incentives Payment by results Piece-rate pay Bonuses Sales commissions
Collective	Fixed pay	Merit pay for groups	
	Variable pay		Group incentives Gain, goal and profit sharing Financial participation Stock plans / Ownership

The focus and context of this thesis is merit pay. Due to the complexity of the pay-for-performance concept, merit pay is easily confused with other types of pay plans. Despite the fact that all plans share the same idea of linking pay to performance, there are some important differences.

Heneman (1992) and Heneman & Werner (2005) listed some typical features of merit pay in order to distinguish merit pay from other pay-for-performance practices.

- Merit pay is granted to individual employees on the basis of individual performance. This distinguishes merit pay from group-based pay plans, which are based on the performance of the entire work group or the whole organization.

- Merit pay is provided for performance, rather than other factors such as the worth of the job (i.e. the job demands). In particular, merit pay is allocated on the basis of actual performance rather than potential performance. For example, merit pay differs from skill-based pay, which is granted for the acquisition of skills that may contribute to subsequent performance.

- Merit pay increases are based on performance appraisals. Subjective ratings (usually made by the employee's direct supervisor) are more common than countable, measurable ratings such as sales or profit.

- Merit pay is usually based on an overall assessment of long-term performance, rather than on an assessment of performance at one point in time.

- Merit pay increases are usually added permanently to an employee's fixed base pay, i.e. to monthly salary. This distinguish merit pay from variable pay plans (for example annual bonuses), in which bonuses are granted on a one-time basis and would not be built into base pay.

The difference between merit pay and other pay-for-performance practices is not straightforward and there are also distinctions between different kinds of merit pay systems. The differences are related to issues to such as the evaluated performance criteria, the form that merit pay takes (increase in salary or bonuses), how the increases are calculated (absolute amount or percentage increase in salary) and the permanence of the increase (under a traditional merit pay plan the increase is permanent) (Heneman & Werner 2005).

When the success of these plans is discussed, opinions of both academics and practitioners have been historically divided. Some are strongly for and

some are against the basic ideas of pay-for-performance. In addition, both views are supported by a variety of theories and empirical findings. In the next chapter I will briefly present the debate over performance-based pay in general and merit pay in particular. Although merit pay is one specific implication of the variety of pay-for-performance plans, the content of positive and negative arguments seems to be very similar despite the plan.

2.3 Rationale behind linking pay to performance

There are several psychological and economic theories that give sound reasons as to why organizations should try to link individual pay to performance with merit pay or some other performance-based pay system. However, theories have a different focus on pay systems.

Economic theories (e.g. utility, agency, efficiency wage, and tournament theories) are more interested in organization-level policies and their corresponding aggregate behaviors such as company-level turnover, when *psychological theories* focus more on individual-level (cognitive) processes that translate rewards into subsequent behavior. Economic theories also tend to focus almost exclusively on money as the motivator when psychological theories try to understand how money motivates and under which circumstances. In addition, psychological theories emphasize more individual differences and the subjective meaning of money when economic theories consider money more as an absolute value (Gerhart & Rynes 2003).

Common to both views is that they suggest in some form that linking pay to performance should improve individual performance and that this increase in performance will lead to increased organizational performance. To simplify greatly, it is suggested that pay-for-performance influences motivation via two different channels: the incentive effect and the sorting effect (Gerhart et al. 2009).

The incentive effect affects motivation by generating higher amounts of effort, i.e. the organization's current employees will work harder. In other words, the focus is on how pay systems affect the attitudes and behaviors of the current workforce. The sorting effect operates through the characteristics of employees and job applicants: those who are motivated by pay-for-performance will apply for and remain with an organization while those not motivated by the systems are likely to quit and look for a job where pay is less dependent on performance. Most of the compensation

research has focused on incentive effect (Gerhart & Rynes 2003, Gerhart et al. 2009).

This thesis takes a psychological approach to pay systems when focusing on individual fairness perceptions that are supposed to influence subsequent attitudes and actions. Next I will very briefly go through the most essential psychological motivational theories that help to understand the premise in which support for pay-for-performance assumption is grounded. The common theme that runs through the theories presented below is that individual motivation and ability are seen as the primary source of individual performance and motivation is increased when pay is linked to performance. However, theories give different explanations as to why linking pay to performance should increase motivation (Heneman 2005).

Reinforcement theory (Skinner 1953; Stajkovic & Luthans & 1997) is one of the oldest motivational theories that support linking pay to performance. The theory suggests that any behavior such as work performance is determined by its consequences. This theory focuses solely on performance consequences and suggests that frequency of behavior is supposed to increase when a valued reward is made dependent on a certain behavior. Clear behavioral goals, a short time span between desired behavior, and "the closer in magnitude the reward is to the behavior" are supposed to strengthen the contingency between the behavior and pay. If the link between a desired behavior and its consequences is not made visible, the frequency of behavior is supposed to decline. Accordingly, pay-for-performance should motivate individuals to increased performance because the monetary consequences of good performance are made known to an employee as is the fact that the timing of payouts is close to that of the performance in question (Heneman & Werner 2005). Reinforcement theory draws a rather oversimplified picture of human motivation, thus providing a basis for other more complex theories.

Probably the best-known argument for linking pay with performance is based on assumptions made by expectancy theory (Vroom 1964), which suggests that motivation is a consequence of the conscious decision-making process by an individual. Three kind of perceptions impact on a decision to act: 1) expectancy refers to an individual's perception that their effort will lead to a certain level of performance; 2) instrumentality refers to an individual's belief that performance will lead to valued outcomes; and 3) valence refers to the degree that an individual places on those outcomes (Heneman & Werner 2005; Bartol & Locke 2000). In sum, the pay system

is supposed to be most effective when individuals value money and believe that they can do what it takes to earn it. However, it should be noted that for most people money can also represent symbolic value in addition to just a means of buying things (Bartol & Locke 2000; Hakonen 2012). According to the expectancy theory, pay is supposed to motivate increased performance if an employee values money, money is linked to performance, employees have an opportunity to impact on performance and it is accurately measured (Heneman 1992, Heneman & Werner 2005; Bartol & Locke 2000).

Equity theory (Adams 1963) adds social comparison to explaining individual motivation. This theory is used to explain individual motivation as well as perceptions of fairness[2]. The theory is based on the assumption that individual motivation is a consequence of the perception of how much a person gets relative to how much a person contributes. To find out whether a person gets what he/she deserves, the contributions and outcomes are compared to other's outcomes and contributions. If the result of comparison is unfavorable to the individual, attempts are made to balance the inequity. Distress caused by perceived inequity can be reduced either through attitudinal changes or changes in performance (Adams 1963). For example, if an employee feels that she/he does not get what she/he deserves (compared to others), she/he may reduce their input by a corresponding amount. In sum, equity theory holds the idea that individuals should receive pay relative to their contributions (not to feel distress) and thus, gives a rationale for linking pay to performance (Heneman & Werner 2005).

Another rationale for using pay-for-performance plans is provided by goal setting theory (Locke & Latham 1990), which is based on the premise that the majority of human action is intentional and directed by conscious goals. The theory suggests that goals are motivating to employees when they are specific, challenging (but not too difficult) and accepted. Accordingly, performance-based pay, and in particular performance appraisal, is supposed to lead to increased effort because it may induce offsetting and commitment to more specific and difficult performance goals (Heneman & Werner 2005).

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[2] Equity theory and its relation to fairness is a central concept of this dissertation and thus discussed extensively in Chapter 4.

In addition to its theoretical appeal, performance-based pay has been demonstrated to be an important motivator in several studies. Locke et al. (1980) studied productivity-enhancing interventions in actual work settings and found that the introduction of individual-level incentives increased productivity by an average of 30%. Other forms of intervention led to significantly lower growths in productivity: job enrichment increased productivity from 9-17% and employee participation less than 1% on average. It is not surprising that Locke et al (1980, 379) concluded that

"Money is the crucial incentive because…it can be used to purchase numerous other values. No other incentive or motivational technique even comes close to money with respect to its instrumental value".

In another meta-study, Guzzo et al. (1985) found that financial incentives had clearly the largest effect on productivity of all psychologically-based interventions, including training and instructions, appraisal and feedback, work redesign and work rescheduling[3]. However, Guzzo et al. (1985, 289) concluded that their results are more equivocal than the very favorable results revealed by Locke et al. (1980), because

"In the case of financial incentives, a substantially positive mean effect turns out not be statistically significant because of enormous variations in results of studies, thus sounding a warning that incentive schemes have traps for the unwary or unsophisticated".

This implies that incentive systems can have a strong positive effect on productivity but this is contingent on the context and application of the system (Guzzo et al. 1985).

Finally, Jenkins et al. (1998) found that corrected correlations between financial incentives and performance *quantity* was .34. However, financial incentives had no impact on performance quality[4]. In addition, favorable results with respect to pay and productivity/task performance are reported by Judiesh (1994) and Stajkovic and Luthans (1997).

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[3] Other interventions were recruitment and selection, management by objectives, goal setting, decision-making techniques, supervisory methods, and socio-technical interventions (Guzzo et al. 1985, 277-278).

[4] Meta-analysis also revealed that the impact of incentives was the strongest in experimental stimulation studies (mean estimated population correlation=.56) and field studies (.48) than in laboratory settings and when studies were grounded either in expectancy or reinforcement theory (.52) (Jenkins, Mitra, Gupta, Shaw 1998). The task type did not moderate the relationship.

Although these meta-analyses revealed compelling results, it should be noted that all studies were conducted in conditions where outcomes of performance were objectively measurable. Thus, these studies examined only a subset of all jobs and excluded, for example, professional/knowledge work whose outcomes are usually intangible (Gerhart & Rynes 2003; Gerhart et al. 2009).

Heneman (1992) studied the effects of merit pay plans based on a review of 25 studies. He concluded that these pay plans appeared to be moderately effective. Merit pay is nearly always related to pay and job satisfaction and sometimes also to improved performance. He revised the review in 2005 adding nine new studies, and concluded that "merit pay consistently related to favorable employee attitudes and less consistently related to improved performance" (Heneman & Werner, 244). The overall assessment remains tentative, however, given the threats to the internal and external validity[5] of this body of research (Heneman 1992; Heneman & Werner 2005). In addition to better research methodology, more research is needed about how merit pay works. One important issue highlighting this point is the process of merit pay and how it is administered (Heneman & Werner 2005).

HR practitioners seem to have strong faith in in the motivating effect of money. Lawler (2003) asked from 50 and Lawler Benson and McDermont (2012) asked from 102 large U.S. companies to evaluate performance management practices used in their organizations. Survey results supported linking pay to performance: managers evaluated performance appraisals to be more effective when appraisal results were connected to the pay outcomes.

The theories and empirical findings described above provide the rationale for organizations' attempts to link pay with performance. However, critics also exist. This is discussed in the next section.

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[5] Methodological limitations were related to their correlational nature, the lack of good baseline measures, their reliance on opinions for performance measurement, and the lack of control over organizational factors that might be expected to work against positive merit pay plan effects.

2.4 Critics of linking pay to performance

Several motivational theories also question the use of pay-for-performance plans. For example, the theories of Herzberg, Mausner & Snyderman (1959), Maslow (1943) and Deci and Ryan (1985) suggest that money is not the primary motivator of human beings. Hertzberg et al. (1959) stated that money can be at best a neutral thing or a "hygiene factor" for individuals. Job satisfaction is a consequence of other things, or "motivators", such as challenging work, recognitions and responsibility. Similarly, Maslow (1943) located pay low down in his need pyramid. The most recent theorizing from this view is from Deci and Ryan (1985; 1999), who argued that paying for contribution can even decrease individuals' natural intrinsic motivation.

Other academics and practitioners have also criticized performance-based pay systems. Much of the discussion is related to implementation problems (e.g. Campbell, Campbell, Chia 1998; Glassman, Glassman, Champagne & Zugelder 2010), but some of the critics question the whole basic idea of pay-for-performance (e.g. Kohn 1993; Pfeffer 1998). Meyer (1975) argued that due to various challenges in implementing pay systems they might actually cause many negative attitudinal and behavioral consequences instead of motivational effect. Kerr (1975) continued that implementation problems lead to situations where organizations are paying for A but actually hoping for B.

Kohn (1993) went even further and argued that very often failures of any pay-for-performance program are simply blamed on glitches in the programs rather than questioning the whole psychological assumption that grounds all pay plans (Kohn 1993, 54). He argued that rewards only create a temporary change in individual behavior or attitudes and compared pay with bribes. Once the reward runs out, people return to their old habits. He also argued that people who receive rewards are not actually performing any better; it is more like the complete opposite. Kohn (1993) concluded that money can undermine intrinsic motivation: People do not reach for excellence primarily because of money but because they are interested in what they do.

In the merit pay context, several implementation challenges have been identified in the literature that may hinder their success (see e.g. Martocchio 2006; Campbell et al. 1998; Heneman & Werner 2005; Beer&Cannon 2004). These are related to the system itself, such as poor performance measures suffering from a lack of objectivity. The role of

supervisors is also noted. For example, they do not want to differentiate between performers so as to avoid conflict with them, or their ratings are biased for some reasons. Some criticism is also related to the overall implementation of the system, such as the lack of open communication, or merit increases are based on some factors other than performance. Overly small merit increases are also criticized for producing little motivational value; instead it is suggested they create undesired completion or other unintended consequences.

One interesting discussion is whether the public sector should adapt these pay-for-performance systems from the private sector (Perry 1986, Kellough & Lu 1993, Marsden & Richardson 1994, Perry, Mesch & Paarlberg 2006, Weibel, Rost & Osterloch 2009, Bowman 2010). I will look into this discussion in more detail below because the data of this thesis is from government sector organizations.

In general, reviews of merit pay and pay-for-performance systems (Igraham 1993, Kellough & Lu 1993; Heneman & Werner 2005; Perry, Mesch & Paarlberg 2006; Perry, Engsberg & Jun 2009) in the public sector have not been very encouraging. Perry et al. (2009) concluded "at the aggregate level, our analysis finds that performance-related pay in the public sector consistently fails to deliver on its promise (2009, 43). Kellough and Lu (1993) concluded that merit pay programs have not improved employee job satisfaction and productivity or decreased turnover. Generally, merit pay seems to have had little positive impact on employee motivation and organization performance. Thus there seem to be a gap between expectations and reality concerning merit pay and pay-for-performance in general in the public sector.

Ingraham (1993) presented interesting arguments when questioning the rationale for adopting pay-for-performance programs in the public sector. She argued that too often the public sector looks to the private sector for guidance and adopts systems that are deemed ineffective. Ingraham (1993, 350) summarized several conditions that have had an impact on pay system success in the private sector: 1) pay-for-performance is a part of total management which means that managers should have the discretion, the authority, and the resources to recognize, reward adequately and also demote and fire when needed; 2) there is an ability to link pay to performance; 3) consensus exists about measures of both individual and organizational success; and 4) there is adequate funding for the pay system.

The fit between these conditions and those found in most public sector organizations is not the best possible (Ingraham 1993). These institutional differences between sectors may be the source of problems and may even represent more fundamental constraints to success (Perry et al. 2009). According to the reviews (Kellough & Lu 1993, Ingraham 1993, Perry et al. 2009), the problems with merit pay and pay-for-performance plans in the public sector include:

- The link between performance and outcome is missing. Employees and managers feel that better performance will not lead to increased pay. Due to this, pay systems fail to trigger changes in motivation.

- An adequate budget for the pay system is difficult to ensure. Small pay increases do not motivate employees and, at the same time, they create a significant amount of paperwork for managers.

- Personnel functions are separated from line managers in most organizations. This means that managers' ability to manage efficiently in pay systems is severely constrained and they rarely have control over their financial resources. Compared to the private sector, public sector organizations tend to be strongly influenced by complex personnel rules and procedures. Due to this, public sector organizations are often less flexible and offer limited opportunities for individual discretion

- Pay and motivation: pay may not be the primary motivator for public sector employees. The primary motivators among public sector employees might be related to nonmonetary issues such as the desire to serve the public interest or to achieve social equity.

Perry et al. (2009, 45) concluded in their meta-analytic review that

"one of the most consistent findings about public pay-for-performance plans is that they are poorly implemented, with the absence of good performance management practices a critical flaw".

Problems with merit pay are largely caused by problems with the performance appraisal process. There are several problems such as the lack of accurate measures, problems with performance measurement, the lack of objective data, leniency and inflated ratings, and the halo effect, that decrease the credibility of performance appraisal system among employees.

For example, Marsden and Richardson (1994) carried out a survey case study in the UK public sector. They concluded that the principle of linking pay to performance was widely accepted by the staff. However, only a small minority of respondents agreed that the system had a positive motivational effect on performance. At the same time, there was clear evidence of some demotivation. Thus, the net effect of staff motivation could well have been negative. The criticism was particularly related to the lack of money involved, fairness of the pay system operation, and the decline in the atmosphere at work and in morale. Many respondents felt that no matter how hard people work, many would not be given performance-based pay raise. Similar findings have also been found from Finnish public sector organizations (Huuhtanen et al. 2005; Lahti et al. 2006; Salimäki & Nylander 2006).

The academic discussion concerning pay-for-performance plans seems to have split into two camps: supporters and opponents. It seems that there is no "one truth" about pay-for-performance plans and their success varies according to the pay system chosen, circumstances and the organizations where the system is implemented: what works for one organization does not necessarily work for another (Gerhart et al. 2009). In addition, the pay-for-performance concept is broad and consists of various types of pay plans, and therefore conclusions cannot be drawn from one type of plan to other without careful consideration. In addition, the role of money as a motivator is complicated. In particular, the implementation of performance-based systems in the public sector seems to be even more difficult than in private organizations.

The combination of potential advantage and risks calls for more research on conditions that influence the success or failure of these systems. Although pay-for-performance systems have recognized flaws, these systems can succeed, and at a minimum, they seem to remain a part of the human resource management of organizations' everyday life. The issue confronting the practicing administration is how to get these imperfect tools to work reasonably well. One common failure factor shared by all plans seems to be related to implementation challenges and as a consequence, to a weak acceptance of the system by employees and supervisors (Gerhart et al 2009; Salimäki 2009; Glassman et al. 2010).

In this study I have chosen to focus on the fairness of one key implementation process of merit pay, that is performance appraisals. It has been pointed out that assessing perceptions of justice related to appraisals

might be a useful way of evaluating the success of the entire system (Greenberg 1986; 1995; Folger et al. 1992; Murphy & Margulis 1994; Erdogan 2001). In the performance appraisal process, the possible weaknesses of merit pay are all present, and more importantly, in the way that they are perceived by the key parties participating in its implementation. These parties are supervisors as the "users" and subordinates as the "targets" of the system. They are the ones who define the perceived fairness of the system and finally decide whether to accept it. In the following sections these issues are discussed more when the concept of performance appraisal is explored in more detail. After that, the central concept of this thesis, justice, is presented.

3. Performance appraisals

Performance appraisals may be defined as a structured formal interaction between a subordinate and a supervisor where the subordinate's work performance is evaluated (Murphy & Cleveland 1995; Spence & Keeping 2011). It takes the form of a periodic performance appraisal interview, usually annual or semi-annual. It is a generic term for a variety of processes (such as performance assessment, performance evaluations, performance reviews) whereby an individual's work performance is assessed, usually by the person's closest supervisor, and discussed with a view to solving problems, improving performance and developing the individual appraised.

Performance appraisals are usually based on standardized methods (for example criteria and scales in the merit pay system), which are used in performance appraisal interviews. Criteria and scales are normally developed to fit the demands and characteristics of an organization (Rynes, Gerhart & Parks 2005, Drewes & Runde 2002). In the appraisal process, either the employee's performance or the outcome of performance is evaluated (Murphy & Cleveland 1995; Fletcher 2002; Dreves & Runde 2002; Lawler 1990).

According to the Murphy and Cleveland (1995), the general aim of the performance appraisal is to enhance employee motivation and performance and organizational goal achievement. Performance appraisals are usually implemented for at least two reasons. Firstly, performance appraisals are used as a management tool in order to develop personnel. In particular, performance evaluation is seen to improve the performance of employees through developmental feedback (i.e. mainly focused on improving performance). Secondly, appraisals are used to make administrative decisions based on the evaluation of performance, namely, the allocation of rewards and punishments such as pay increases, promotions or dismissal (Murphy & Cleveland 1995).

Performance appraisal in the merit pay context includes the aims of: 1) informing employees how to perform better and 2) giving a monetary incentive to act on that information (Rynes et al. 2005). Thus, performance appraisals advise supervisors to make pay decisions but also enable them to give developmental feedback to employees in order to ensure improved future performance. However, it should be noted that the performance appraisal system can be used effectively for many related purposes and both individuals and organizations are likely to pursue a number of goals with their performance appraisal system (in addition to merit pay increase distribution)[6] (Murphy & Cleveland 1995).

3.1 Traditional approaches to appraisals

Performance appraisal is an extensively studied subject, especially in the field of work psychology. There are two traditions in the literature that have concentrated mainly on improving the accuracy of appraisals (Spence & Keeping 2011). The first research trend has concentrated on different types of rating scales and measures, and how these could be applied and used in the most appropriate way (see e.g. Landy & Farr 1980; Murphy 2008[a&b]). In this research field, problems with performance appraisal have mainly been considered a measurement problem. That is also why research has focused on issues such as scale development, scale formats and reducing test and rater bias. Much of this research on performance appraisal have been a search for better, more accurate and more cost-effective ways for measuring job performance. (Milkovich & Widgor 1991; Murphy & Cleveland 1995; Murphy 2008[a&b])

In contrast to the measurement approach, the second research trend has focused on the cognitive processes underlying the appraisals (see reviews e.g. Ilgen & Feldman 1983; DeNisi & Williams 1998). Raters (usually supervisors) were seen as a new psychometric tool (Folger & Cropanzano 1998). This tradition focused on raters' cognitive structures to determine the source of possible biases in performance appraisals. The aim has been to understand how raters process information about the employee and how

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[6] Although performance appraisals and pay-for-performance usually are closely linked to each other in practice, the literature of these two fields is quite separate. There exist voluminous psychological literature on performance appraisal but surprisingly little of this research examines the consequences of linking pay to evaluated performance, i.e. it isolates the appraisal process form the surrounding pay system context. At the same time the extensive pay for performance (including merit pay) literature exist but it is done by other researchers and disciplines than those conducted in performance appraisal field. (Rynes et al. 2005). However similar topics are discussed by both literatures, only the focus is a bit different.

this mental processing influences the accuracy of performance appraisals (Wiese & Buckley 1998). Research in this area concentrated on four major cognitive processes (Murphy & Cleveland 1995). The first research area focused on information-acquisition processes. This area attempted to find out which features and behaviors of subordinates received little, or in contrast, a lot of attention from the rater. Research on encoding and mental representations focused on categories and schemes involving performance appraisals. Research has also focused on memory and storage issues and how individuals integrate different pieces or types of information (Murphy & Cleveland 1995).

Folger et al. (1992) and Folger and Cropanzano (1998) refer to these research traditions and the attempts at them as the "test metaphor", because they treat performance appraisals mainly as another type of psychological test. Consequently, performance appraisals and the following pay decisions are considered "fair" to the extent that the appraisal system accurately assesses performance. Although the measurement and cognitive approaches have slightly different emphases, they both share a common concern with the accuracy of the appraisals; the "goodness" of the performance appraisal was evaluated against criteria for validity, reliability and freedom from bias (Bretz, Milkovich & Read 1992; Spence & Keeping 2011). Accordingly, performance disagreements between subordinates and supervisors are considered disputes over the most accurate view of reality, in which truth can be measured against some precise consistent standard. Thus, the primary goal of measurement and cognitive-oriented research is to reduce rating errors and thus both approaches reflect the "test metaphor" (Folger & Cropanzano 1998).

The practical value of these two research approaches is questionable (Fletcher 2002; Murphy 2008$_{a\&b}$). Although the measurement and cognitive approaches have provided important insights into the problems of measuring performance (such as halo, leniency), they mainly emphasized the importance of appropriate training of the raters. However, there is little or no evidence to suggest that appraisals have significantly improved after training in terms of their "accuracy" or other psychometric properties, and many organizations are still dissatisfied with their appraisal systems for a variety of reasons (Fletcher 2002; Murphy 2008a&b; Spence & Keeping 2011). This suggests that the success of appraisals might include other aspects as well than indicated by measurement and cognitive approaches. This is discussed next.

3.2 The contradictory reality of appraisals

According to the Folger et al. (1992) (see also Folger & Cropanzano 1998), measurement and cognitive perspectives on performance appraisals are based on three quite rational assumptions; firstly, work arrangements allow for a reliable and valid performance assessment, in other words, appraisals are based on valid knowledge and information. This requires that appraisers both understand and have an opportunity to observe the task and the person under evaluation. Secondly, raters can assess performance accurately, in other words, no cognitive disruptions diminish the accuracy of the appraisals. Third, an assumption demands the existence of rational, unitary criteria for performance appraisal. These three conditions are highly important but it is doubtful that they exist in every organization.

It has been suggested (Bretz et al. 1992; Ferris, Munyon, Basik & Buckley 2008) that although measurement and cognitive approaches have improved the understanding of some mechanics of performance appraisals, they do not sufficiently emphasize the social context of appraisals. In addition, the focus on the technical quality of the measures has treated individuals in the appraisal process as motivationally neutral elements. Even cognitive research has ignored the role of appraisals as communication and decision-making tools as well as the social and motivational context in which appraisals take place (Murphy & Cleveland 1995; Folger & Cropanzano 1998; Fletcher 2002; Ferris et al. 2008).

As previous research has shown, appraisals are targeted at many challenges (e.g. Levy & Williams 2004; Ferris et al. 2008; Murphy 2008[a&b]). For example, supervisors do not have enough opportunities to observe their subordinates' performance (Bretz et al. 1992) and work or the output of the work is hard to observe and measure (see Lee 1985). In addition, people are sometimes cognitive misers (eg. Fiske and Taylor 1984), who use categories and other helpful heuristics when assessing social events (DeNisi-Williams 1988). Even if the cognitive processes are correct most of the time, errors occur. Moreover, even if the accurate criterion exists, the same criteria can be interpreted in many different ways depending on the interpreters and their values and standards (Folger et al. 1998; Judge & Ferris 1993; Bretz et al 1992). Similar challenges are also identified and discussed widely in the pay system literature (Milkovich and Newman 2005, 331; Martocchio 2006, 129; Campbell, Campbell & Chia 1998; Heneman & Werner 2005; Ingraham 1993, Kellough & Lu 1993; Perry et al. 2006; 2009).

Thus, the implicit picture of the appraisal process "as a rational test" has faced criticism and the authors argue that the effectiveness of performance appraisals has suffered because of this overly rational nature of its conceptualization. Researchers (Levy&Willams 2004; Murphy 2008[a&b]; Ferris et al. 2008;) have suggested that instead of only reaching for measurement accuracy per se, we should also try to understand the social reality where the appraisals take place. This requires acceptance that this reality is sometimes far from rational or unanimous. Performance appraisals act as a meeting point for a very diverse range of motives and actions of the organization, the appraiser and those appraised. Despite the formal organizational goals, little is likely to be achieved without considering the roles and attitudes of the people who have to make appraisals work – the supervisors and subordinates (Gupta & Jenkins 1998; Fletcher 2002; Ferris et al. 2008).

Supervisors are influenced by many factors such as organizational pressures and politics as well as their own personal attributes. For example, the pay system itself sets certain boundaries for supervisors' actions (Murphy 2008[a&b]; Scott 2009). Supervisors may also differ in their personal attributes, such as empathy, which are important precursors for their subsequent fair or unfair actions (Patient & Skarlicki 2010). In addition, subordinates bring their personal motivation, attributional and feedback styles and self-awareness to the appraisal situation, thus they are oriented more towards the perceived level of competence and personality factors (Fletcher 2002; Levy-Williams 2004; Ferris et al. 2008).

Objectivity and accuracy of appraisals can be threatened by the ambivalent feelings and emotions supervisors and subordinates can have towards appraisals (e.g. Napier-Latham 1986; Longenecker, Sims & Gioia 1987; Spence & Keeping 2011). Cleveland and Murphy (1992) suggest that this ambivalence might be a consequence of conflicts between an individual's goals and the formal goals of appraisals. This "hidden agenda" is sometimes referred to in the literature as 'organizational politics'.

The role of politics in appraisals is identified in many studies (Longenecker et al. 1987; Kahmar & Baron 1999; Gupta & Jenkins 1998; Poon 2004; Salimaki & Jämsén 2010). Politics refers to deliberate attempts by individuals to enhance or protect their self-interest in possible conflict situations (Longenecker et al. 1987). Kacmar and Baron (1999, 4) defined politics as involving

"actions by individuals which are directed toward the goal of furthering their own self-interest without regard for the well-being of the others or their organizations".

Political action in a performance appraisal represents a source of bias or inaccuracy in the employee appraisal. Often, appraisers seek to avoid conflict with personnel and consequently have many motives for giving inaccurate ratings (Longenecker et al. 1987; Gupta & Jenkins 1998). Longenecker et al. (1987) declared that that accuracy may not be the primary concern of the appraising supervisor at all. Instead, the main concern is to use the appraisal process in the best possible way to motivate and reward subordinates and avoid problems for themselves. Supervisors can give inaccurate appraisals for many reasons (Murphy & Cleveland 1995; Gupta & Jenkins 1998; Murphy 2008[a&b]), for example:

- the thought that accurate ratings would have a negative effect on the subordinate's motivation and performance

- to try to improve subordinates' chances for pay rises

- to try to maintain the good image of the unit and keep others from seeing signs of internal problems or conflict

- to try to protect subordinates whose performance has suffered in order to avoid personal problems

- to want to reward subordinates who contributed by working hard, even if the results were not so good

- to avoid confrontation and potential conflict with subordinates

In contrast, subordinates can influence the supervisor's performance evaluation in many ways. Verbal and interactional skills and impression management in particular are efficient ways of affecting performance ratings, especially in performance appraisal interviews. Impression management refers to those behaviors individuals employ to protect their self-images, influence the way they are perceived by significant others, or both. (Schlenker 1980.) This is considered one type of political behavior (Zivnuska, Kacmar, Witt, Carlson & Bratton 2004).

Jones and Pittman (1982) identified five main categories of impression management behaviors: intimidation, integration, self-promotion, exemplification and supplication. All these behaviors can be defined either

as defensive or assertive tactics and they may be used for short-term or long-term purposes (Tedeschi & Melburg 1984). During the performance appraisal process, assertive tactics are usually exploited more often in order to gain favorable ratings (Zivnuska et al. 2004). Research has found support for the relationship between subordinate impression behavior and supervisory performance ratings. For example, Wayne and Liden (1995) found that demographic similarity and impression management behavior influenced supervisory performance ratings through their impact on supervisors' liking and perceived similarity with the subordinate.

As the above-mentioned findings suggest, scholars have concluded that that the tendency to treat appraisals as rational technical tools striving for accuracy is important but ultimately limited. As mentioned before, accuracy may not always be the primary concern of the practicing supervisors, or may not even be possible in terms of human cognitive limitations (Spence & Keeping 2011). It also treats the individual as an "economic man" [7] that is interested only in outcomes, i.e. the pay increases gained. Thus, this approach does not emphasize the social, emotional, political and situational aspects that are linked to the success of performance appraisals (Levy-Williams 2004; Ferris et al. 2008).

It has been suggested that the justice approach might provide one possible way to capture the variety of perceptions related to appraisals (e.g. Greenberg 1986[b]; Folger et al 1992; Folger and Corpanzano 1998; Erdogan et al 2001). Due to the subjective nature of the concept of justice, it covers all formal and informal aspects of the appraisals that are perceived to be important by the individuals[8]. Thus, these perceptions might include many other aspects than just accuracy of appraisals or "technical soundness" of the system. Next I will take a closer look to these issues when the concept of justice is introduced and its relevance to the appraisal and pay systems are described.

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[7] The term "economic man" was used for the first time in the late nineteenth century by critics of John Stuart Mill's work on political economy. The term refers to man as a rational and self-interested actor who desires wealth, avoids unnecessary labor, and has the ability to make judgments towards those ends.

[8] When using the terms justice or fairness in social sciences, they refer to individuals' perceptions and evaluations about the appropriateness of a given outcome or process. This means that the justice construct is subjective, as perceived by a person. (see e.g. Cropanzano & Greenberg 1997). This descriptive definition is different from definitions formed in moral philosophy, which is based on normative definitions, in other words, specifying what should be done to achieve justice (e.g. Greenberg & Bies 1992).

4. Justice literature, merit pay and appraisals

Organizational justice refers to individuals' perception of fairness in organizations, and the concept is usually divided into three subcategories (e.g. Colquitt, Greenberg & Zapata-Phelan 2005). Individuals are concerned not only about outcomes, in other words *distributive justice* (e.g. Adams 1963, 1965; Deutsch 1985), but also about the process through which decisions are made, i.e. *procedural justice* (e.g. Thibaut & Walker, 1975; Leventhal 1980; Lind & Tyler 1988; Greenberg 1990$_a$; Konovsky 2000), and how they have been treated in this process, i.e. *interactional justice* (e.g. Bies & Moag, 1986; Greenberg 1993).

Next, I will discuss the dimensions of justice in more detail. The concept of distributive justice is presented first, because merit pay and performance appraisals are based on its principles. After that, I will introduce the concepts of procedural and interactional justice, which evolved from the concept of distributive justice. They are also the key focus areas of this study because they provide base to understand why implementation processes involving merit pay and appraisals are so crucial.

4.1 Distributive justice

The dominant theory of distributive justice is Adams' equity theory (1963; 1965), which is based on ideas of relative deprivation (Stouffer, Suchman, DeVinney, Star and Williams 1949), distributive justice theory by Homans (1961), social expectation ideas by Blau (1964), and cognitive dissonance theory by Festinger (1957). The focus in Adams' theory is on social inequity, with special consideration given to pay inequities. Adams understood (in)equity in terms of the perceived ratio of outcomes to inputs in exchange situations. According to Adams (1963, 424):

"Inequity exists for person whenever his perceived job inputs and/or outcomes stand psychologically in an obverse relation to what he perceives are the inputs and/or outcomes of others".

The central terms in Adams' definition (1963, 424) are "person", "other", "input" and "outcomes". According to Adams, the term "person" is any individual for whom equity or inequity exists. The term "other" is any individual or group used by "person" as a referent when he/she makes social comparisons of his/her input and outcomes. A person's "inputs" in an exchange are 'education, intelligence, experience, training, skills, seniority, age, sex, ethnic background, social status, and very importantly, the effort expended on the job (Adams 1963, 424). The "outcomes" are the rewards received by an individual in exchange for inputs. Outcomes include 'pay, rewards intrinsic to the job, seniority benefits, fringe benefits, job status and status symbols and a variety of formally and informally sanctioned perquisites' (Adams 1963, 424).

Both outcomes and inputs are as perceived and are thus dependent on the definer. A normative expectation of what constitutes a fair ratio between inputs and outcomes exists. These expectations are historically and culturally determined; based on experiences obtained from a social comparison process, i.e. comparing one's outcome/input ratio with the ratio of a reference person or group. When these normative expectations are violated (i.e. the outcome/input ratio is unbalanced compared to others), the feeling of inequity arises (Adams 1963).

Inequity can occur when a person is underpaid or overpaid. Perceived inequity will motivate a person to achieve equity. The amount of perceived inequity is directly related to the strength of the motivation to reduce it. Distress caused by perceived inequity can be reduced in many ways: 1) the person may increase or decrease his inputs/outcomes if one or the other is low relative to the comparison of others' inputs/outcomes, 2) the person may leave the field, e.g. resign, 3) the person may psychologically distort his/her own or others' inputs and outcomes, or 4) the person may try to change his referent when inequity is perceived (Adams 1963).

The assumptions of equity theory have been criticized, although it has an established position in the justice literature. The criticism stated that equity[9] is not the only allocation norm that may be followed when

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[9] Leventhal referred to the equity rule as the "contributions rule", which dictates that persons with greater contributions should receive higher outcomes (Leventhal 1980, 29).

attempting to divide rewards fairly (Deutsch 1975; Leventhal 1980). The context and (non-economic) social relationships influence which allocation norm is perceived as fair. For example, if the primary goal of exchange is to strengthen group solidarity (rather than the advancement of individual productivity), *equality* is considered a more appropriate allocation than equity. In addition, sometimes *need* is perceived as a more adequate allocation norm than equity. Hence, the conceptualization of distributive justice was expanded to three norms; equity, equality and need (Deutsch 1975).

However, equity remains the dominant conceptualization, at least in the workplace context in general (Colquitt et al. 2005) and in pay system context in particular (Marsden and Richardson 1994; LeBlanc & Mulvey 1998; Mamman 1997; Dickinson 2006). Merit pay and appraisals are good examples of the equity principle because they hold the idea that individuals should receive pay relative to their contributions.

Greenberg (1986$_{a\&c}$) discussed the role of distributive justice judgments in the performance appraisal context and in particular situations where performance appraisal has administrative consequences such as pay increases. Satisfaction with outcomes, i.e. distributive justice in the performance appraisal system, requires perception and evaluation of two links: the first is perceived fairness of the relationship *between the appraisal result (rating) and the employee's performance*. The second is the perceived fairness of the relationship between *appraisal rating and any appraisal-related consequence*, for example pay increase. It could be argued that if employees do not *perceive* the (actual) link, the motivational effects and fairness perceptions of the merit pay are weak.

Figure 1 illustrates (based on Greenberg 1986$_c$, 399) the two judgment phases operating in a performance appraisal system. If money is not linked to performance appraisals, performance appraisal results serves as an outcome itself (the first box from the left). However, when money is involved, evaluations serve as intermediate steps through which administrative decisions, operating as outcomes, are made. Thus, the overall perceived distributive justice of performance appraisals in the merit pay context consists of two distributive justice evaluations phases: fairness of the appraisal result and fairness of the subsequent administrative decisions, such as a pay rise.

Figure 1. Two distributive justice judgment phases of performance appraisals in the merit pay context

It has been suggested (Campbell et al. 1998) that individuals usually accept merit pay and appraisals principles because they reflect the norm of distributive justice, and the equity rule in particular. Thus, individuals usually prefer the idea that better performance should lead to better pay (Marsden and Richardson 1994; LeBlanc & Mulvey 1998; Mamman 1997; Dickinson 2006). However, in actual operation this perception might change due to the various implementation problems facing the system. As a consequence, individuals become disappointed with the implementation of their specific merit pay and appraisal system but not necessarily with the basic idea of the system itself (Campbell et al. 1998). Implementation challenges are related to the concepts of procedural and interactional justice, which have been demonstrated to be important factors for individuals when evaluating the functionality of their merit pay system (St-Onge 2000). Next, the concepts of procedural and interactional justice are discussed in more detail.

4.2 Procedural and interactional justice

While distributive justice deals with outcomes, *procedural justice* focuses on the fairness of the decision-making procedures that lead to those outcomes. Procedural justice researchers have different explanations for the psychological processes underlying individuals' interest in procedural justice. Next I will present what are probably the two most commonly used explanations: instrumental control (e.g. Thibaut & Walker 1975) and relational concerns (e.g. Lind & Tyler 1988).

The *instrumental control* explanation emphasizes the short-term perspective; disputing parties want *control* over the conflict resolution (made by a third party) or decision process in order to gain better (or

guarantee sufficient) outcomes for themselves. Control over process will ensure that the third party will get sufficient information and that is considered to make the process and decision equitable. However, Lind (2001) reminds us that control can be used to secure more favorable outcomes (e.g. distributive justice) in some cases, along with many other psychological benefits and consequences. Hence, the key element in the instrumental model is control, not personal gain.

The *relational perspective* takes a more long-term focus. According to this perspective, which is also referred to as the group value model (e.g. Lind & Tyler 1988; Tyler 1989; Tyler & Lind 1992), people are interested in dispute resolution or decision-making procedures because they reflect individuals' own relationship to the authorities or institutions that employ the procedures. Such procedures have important implications for individuals' self-worth and group standing. Procedures reflecting a positive, full-status relationship are viewed as fair because they manifest the basic process values in the institution or organization and also the individuals' own organizational standing and status (Tyler 1989).

There are many suggestions about the *attributes* that makes procedure perceived as fair. In this study, these attributes are referred to as *justice rule(s)*. Some researchers emphasize the instrumental value of the procedures (e.g. Thibaut & Walker 1978), others focus on the relational side of the procedures (e.g. Bies & Moag 1986, Lind & Tyler 1988) while some combine these two approaches (e.g. Leventhal et al. 1980). The relevant approaches and concepts of the procedural and interactional justice literature are discussed next, with the focus on the proposed justice rules.

Thibaut and Walker (1975) were the first researchers to introduce the construct of procedural justice. Their findings were based on the fairness perceptions in the legal dispute resolution context and emphasized the role of control in that process. The authors distinguished between two forms of control. *Decision control* refers to the degree which disputants can determine the outcome of a dispute, and *process control* to the degree which disputants can control the factors (such as presentation of information and evidence) used to resolve the dispute, i.e. the opportunity to influence the information that will be used to make decisions. The optimal dispute model gave the process control to the disputants but reserved decision control to a neutral third party. In other words, individuals were more willing to lose unilateral control over decisions than control over the process that determines the final decision (Thibaut &

Walker 1975). When parties do not have a chance to determine their own outcomes, the opportunity to present evidence relevant to the decision is important. This means that process control enhances fairness perceptions independently of its ability to influence outcomes. Process control is sometimes referred to as the "voice" effect and also as "fair process effects" when the emphasis is on the consequences of voice (e.g. Van den Bos 2005).

The concept of procedural justice expanded when Leventhal (1980) outlined "*procedural rules*". Levanthal (1980, 30) defined justice rule as

"an individual's belief that a distribution of outcomes or procedures for distributing outcomes, is fair and appropriate when it satisfies certain criteria".

While a distributive rule concerns the allocation of rewards and punishments are distributed in accordance of certain criteria (e.g. equity, need, equality), a procedural rule is defined as an individual belief that allocative procedures are fair and appropriate when they satisfy certain criteria (Leventhal 1980, 30).

Procedural rules are context sensitive, meaning that individuals apply them selectively and follow different rules in different contexts. This means that some rules may have greater weight depending on the circumstances in which they are evaluated (Leventhal 1980). Six procedural justice rules define criteria that allocative procedures must satisfy to be perceived as fair:

- Consistency: procedures should be consistent across time and individuals. This means that procedural characteristics are stable to some extent. Consistency across individuals requires that nobody has a special advantage (i.e. equality of opportunities).

- Bias suppression: personal self-interests or existing preconceptions should not affect procedures.

- Accuracy: procedures should be based on valid and sufficient information, with a minimum of error.

- Correctability: there is a possibility to express grievances and make appeals and also an opportunity to change or reverse decisions.

- Representativeness: procedures must take the basic concerns, attitudes and values of the individuals or subgroups influenced by

the procedures into account. This rule reflects the concept of "voice" (process control) by Thibaut and Walker (1975).

- Ethicality: procedures must be consistent with general moral and ethical codes and values. For example, there should not be any deception, blackmailing or bribery (Leventhal 1980).

Illustrations of procedural justice rules with reference to a pay system and a performance appraisal context are presented in Table 2.

Table 2. Procedural justice rules and their illustrations in pay and performance appraisal context

Procedural justice rules	Illustration in pay context (Miceli & Lane 1991)	Illustration in performance appraisal context (adapted from Folger & Bies 1989)
Consistency	The policy for responding to competitive job offers to employees from other organizations should be consistent (e.g. that they will be matched for high performers	Maintaining consistency in performance standards over time and among employees
Bias suppression	Performance appraisals used to determine merit pay should be uncontaminated by unfair discrimination or personal bias	Constraining self-interest by discussing performance expectations and discrepancies
Accuracy	When pay surveys are used to set pay rates, data should be complete, representative, and up to date in reflecting other organizations' pay rates	Training managers and employees to record performance accurately throughout the period and use this record to prepare and justify performance evaluations
Correctability	Employees should have the opportunity to provide information that is used by the supervisor to adjust pay rates	Managers should examine seriously and thoroughly the information received from the employee in the performance appraisal interview. In addition, perceived failures in performance appraisals can be appealed.
Representativeness	Members of the compensation committee should be selected from a variety of locations and functional areas	Discussing concerns of the employee and manager throughout each stage of the process
Ethicality	Organizations should not misinterpret information to employees	Using procedures that are compatible with existing moral and ethical standards

In addition to outcome and procedural fairness, people are also concerned about the quality of the interpersonal treatment they receive during the implementation of organizational procedures (Bies & Moag 1986, 44). Lind & Tyler (1998) and Tyler (1989) suggested that relational dimensions like an individual's standing (status) in the organization, neutrality in decision-making processes and trust in authorities' fair intentions are important determinants in the perception of fairness. An individual's standing is thought to be conveyed by interpersonal treatment during social interaction. Being treated rudely is a sign of lower "inclusion" in a group (interests are unlikely to be protected) and polite treatment refers to a good status or strong inclusion in a given group or situation (Tyler 1989). Accordingly, the above-mentioned aspects are also subject to fairness consideration and related to *interactional justice,* which refers to the quality of the interpersonal interaction and treatment between individuals when organizational procedures are enacted (Bies & Moag 1986).

It is proposed that interactional justice has at least two components itself [10] (see e.g. Greenberg 1993; Colquitt et al. 2001). The first one is *interpersonal sensitivity or justice,* which refers to the propriety and respectfulness of the procedures. Accordingly, authorities should not make prejudicial statements or ask improper questions (e.g. about sex, race, age, gender, religion). Moreover, individuals should be treated with sincerity and dignity and inappropriate behavior should be avoided.

The second component is related to the *informational* side of interactional justice, which refers to the truthfulness of and justification for the procedures. Accordingly, authorities should be open, honest and sincere in their communication when implementing decision-making procedures. Any sort of deception should be avoided. Authorities should also provide adequate explanations of outcomes of a decision-making process (Bies & Moag 1986 46-50; Greenberg 1993, Colquitt et al. 2001; Colquitt et al. 2005, 30). The meaning of interactional justice particularly in the performance appraisal context is presented in Table 3.

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[10] Originally, Bies and Moag (1986, 46-50) outlined four criteria of principles that people use to judge the fairness of communication in the job search process: 1) truthfulness, 2) respect, 3) propriety of questions and 4) justification. These criteria were reduced further to constructs of interpersonal justice (respect and propriety rules) and informational justice (justification and truthfulness rules) by Greenberg (1993.)

Table 3. The interactional justice rules and their illustration in performance appraisal context

INTERACTIONAL JUSTICE RULES (Bies & Moag 1986)		Illustration in performance appraisal context (adapted from Folger & Bies 1989)
Interpersonal justice	Propriety and respectfulness of the procedures	Polite and respectful treatment of employees in performance appraisal interview
Informational justice	Truthfulness and justification of the procedures	Truthfulness in communications with employees and sufficient justification for an outcome decision

 Research has shown that different justice types have important implications for organizations in general and for pay systems in particular. These issues are discussed next.

4.3 The impact of justice in organizations and the pay system context

In recent decades, an extensive number of studies have demonstrated that the perception of justice is an important phenomenon to an organization due to its consequences on employees' behaviors and attitudes. Meta-analyses (Cohen-Charash & Spector 2001; Colquit et al. 2001; Viswesvaran & Ones 2002) have summarized the relationship between perceptions of justice and organizational and personal level outcomes.

Accordingly, when people perceive that they have been treated *fairly,* they show higher commitment to organizations and institutions and are more likely to commit to organizational citizenship behavior. In addition, the perception of fair treatment is positively related to trust in supervisors, better job performance and job and supervisory satisfaction (Cohen-Charash & Spector 2001; Colquit et al. 2001; Viswevaran & Ones 2002). In addition, several studies have shown that fair treatment is associated with many different phenomena, for example acceptance of company strategy (Kim & Mauborgne 1991; 1996), perceptions of performance appraisals (Taylor et al 1995; 1998), pay rise decisions (Folger & Konovsky 1989) and a specific policy such as a smoking ban (Greenberg 1994).

In contrast, people who perceive that they are treated *unfairly* are more willing to leave their jobs (Cohen-Charash & Spector 2001; Colquit et al 2001), are less willing to cooperate (Lind 2001), show a higher level of work stress and disobedience (Huo et al 1996), may engage in counterproductive

behaviors (Cohen-Charash & Spector 2001) or may even start to behave in antisocial ways (Greenberg 1990b). They may also show negative emotions and reactions (Cohen-Charash & Spector 2001; Colquit et al 2001). Low organizational justice is also shown to be a risk to the health of employees (Elovainio, Kivimäki & Vahtera 2002; Kivimäki, Elovainio, Vahtera & Ferrie 2004).

Although sometimes highly correlated (e.g. Colquit et al. 2001; Cohen-Charash & Spector 2001; Hauenstein, McGonigle & Flinder 2002), the different forms of justice are usually suggested to have somewhat different outcomes. Research has suggested that distributive justice tends to have greater influence on more specific, personal level outcomes such as pay satisfaction (e.g. Folger & Konowsky 1989; Scarpello & Jones 1996; Sweeney & McFarlin 1993) or turnover intention (e.g. Alexander & Ruderman 1987). In contrast, procedural justice tends to have a greater impact on general systems and authorities such as management or organization as a whole (e.g. commitment) (see, e.g. Folger & Konowsky 1989; Greenberg 1990a; Lind & Tyler 1988; McFarlin & Sweeney 1992; Sweeney & McFarlin 1993; Scarpello & Jones 1996). Interactional justice tends to be connected to supervisor-related outcomes. For example, Cropanzano et al. (2002) found that procedural justice was associated with trust in top management and satisfaction with the performance appraisal system, whereas interactional justice was associated with the perceived quality of treatment received from supervisors. Similarly, Masterson, Lewis, Goldman and Chen (2000) found that interactional justice perceptions were directly related to employees' assessment of their supervisor, whereas procedural justice perceptions were related to employees' assessment of the organization's systems.

In addition to the different outcomes, previous literature has also suggested an important interaction between distributive and procedural justice. Brockner and Wiesenfeld (1996) narratively reviewed 45 studies to explore the interaction between distributive and procedural justice. Studies were divided into four different categories[11] according to their explanations regarding the interactional effect of procedural and distributive justice. The common feature shared by different studies was the suggestion that the negative effects of outcome severity can be reduced by the presence of a high level of procedural justice. This means that the procedural justice

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[11] The four categories were referent cognitions theory, self-interest/instrumental hypothesis, group value theory, and attributional theory.

effect becomes more salient when the outcome is perceived as unfavorable[12]. When a negative outcome is received, this heightens individuals' sensitivity to the procedures used to determine the outcome.

Similarly, McFarlin and Sweeney (1992) found that distributive and procedural justice had a significant interactive effect on subordinates' evaluation of supervisor and organizational commitment. The combination of unfair procedures and low distributive justice produced the lowest ratings on commitment and supervisor evaluation. In contrast, fair procedures produced high commitment and supervisor evaluations, regardless of the level of distributive justice. In the pay system context, Folger and Konovsky (1989) found that employees who felt that their supervisor conducted their performance appraisal fairly tended to rate pay satisfaction, their loyalty to the organization as well as trust in their supervisor more positively – regardless of the pay amount and perceived fairness of pay. Consequently, in the case of pay perceived as unfairly low, a fair process buffered the reactions to low pay from being as negative as they might have otherwise been.

However, these findings do not suggest that an (unfavorable) outcome itself is irrelevant. Procedural justice can only reduce negative outcome effect, but when outcome is low in an absolute sense, procedural justice will have little buffering effect (Brockner & Wiesenfeld 1996). In addition, a reverse effect may also occur. For example, Greenberg (1987) found that when the outcome is favorable, less attention is paid to procedures used.

The literature has suggested many criteria that increase procedural justice perceptions in the pay system and appraisal context. Greenberg (1986$_a$) explored managers' open-ended responses to study antecedents of both fairness and unfairness in the performance appraisal context. In addition to a few distributive factors, several procedural factors were important for justice perceptions: 1) soliciting input prior to evaluation and using it, 2) two-way communication during interview, 3) ability to challenge/rebut evaluation, 4) rater familiarity with ratee's work, and 5) consistent application of standards. For example, both Leventhal et al. (1980) and Thibaut and Walker's (1975) principles were found support and highlight their potential applicability to performance appraisal context.

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[12] Although distributive justice (or outcome fairness) and outcome favorability are theoretically different concepts (see Skitka 2009), they are sometimes treated in the studies (e.g. Brockner and Wiesenfeld) as synonymous.

Folger, Konovsky and Cropanzano (1992) suggested in their "due process model" that three procedural elements are related to the perceptions of fairness in the performance appraisal context: adequate notice, fair hearing and judgment based on evidence. Adequate notice requires the organization and its agents to publish and distribute performance standards to employees. In addition, standards should be explained to employees and regular and timely feedback on performance should be provided. Fair hearing requires a formal review meeting, where the employee receives a tentative assessment of his/her performance from a supervisor familiar with the employee's performance. In addition, employees must have an opportunity to express and explain their own viewpoints concerning the issue (for example self-appraisal). Judgment based on evidence suggests that the organization and its agents should apply performance appraisal criteria consistently across employees, without corruption, pressure or prejudice. In addition, principles of honesty and fairness should be reflected in evaluations and employees should be provided with explanations of ratings and pay outcomes and the opportunity for discussion and appeals (Folger et al. 1992).

These ideas were tested in a performance appraisal context in the field experiment (Taylor et al. 1995). When the elements described above were present in performance appraisals, employees rated the process as more fair and the appraisals as more accurate, were more satisfied, and evaluated their managers more positively. These positive results occurred in spite of the fact that employees received lower evaluations than the control group in the more traditional appraisal form. Supervisors also responded positively to the appraisal system based on the due process model (although it increased their workload), particularly if they had perceived unfairness in their own most recent performance evaluations (Taylor et al. 1998).

The credibility of immediate supervisors is also significantly related to whether employees perceive the performance appraisal system as procedurally fair, distributively just and valid in general (Gabris & Ihrke 2000). Consistency in the distribution of rewards as part of the pay policy, performance appraisals based on written criteria and adequate funding of the pay system has been demonstrated to be related to pay plan reactions (Miceli, Jung, Near and Greenberger 1991). Erdogan et al. (2001) found that the perceived validity of performance criteria and knowledge on performance criteria were related to the perceived (procedural) fairness of the system, whereas fair hearing and performance feedback were positively related to perceived rater (procedural) justice.

As Miceli and Lane (1991) pointed out, it is crucial for organizations to understand the processes that impact on employees' fairness perceptions and pay satisfaction. As Brockner and Wiesenfeld (1996) suggest, the negative effects of outcome severity (such as dissatisfying pay level or a pay rise) can be reduced by the presence of a high level of procedural justice (pay procedures used). Money for wages and salaries is always limited and the motivational impact of pay rises has been shown to be contradictory (see discussion presented in sections 2.3 and 2.4). For example, the link between pay level and job and pay satisfaction has been found to be weak (Judge, Piccolo, Podsakoff, Shaw & Rich 2010). In addition, it should be noted that economic costs may be considerable when decision-makers wish to allocate outcomes so that everyone is satisfied. In contrast, the economic costs of procedural justice are often noticeable smaller, if not nonexistent. In summary, fair procedures and interaction may provide a cost-effective way of implementing a (unpleasant) resource allocation decision (e.g. dissatisfying pay rises) (Brockner-Wiesenfeld 1996). This implies that a successful reward system must embody two issues: not only *what* is distributed but also *how* it is distributed (Folger & Konovsky 1989).

Despite their undeniable importance, there has been conceptual confusion in the field of justice research regarding whether procedural and interactional justice are separate constructs and how many dimensions of justice there actually are (e.g. Greenberg 1993; Cohen-Charash & Spector 2001; Colquit et al 2001; Cropanzano, Prehar & Chen 2002; Colquitt et al. 2005; Bies 2005). For example Colquitt et al. (2001) examined the construct validity of some of the procedural justice components proposed in the literature in their meta-analyses. They found that there is value in terms of variance explained in separating and retaining the interactional, information and structural components of procedural justice. Furthermore, they found that these different types of justice had different outcomes. Previous research has shown that when prompted by a researcher, individuals can make indeed a difference between different justice types (Rupp & Aquino 2009; Lavelle, Rupp & Brockner 2007). However, traditional justice research has not properly taken account the source perceptions related to the justice experiences. This shortcoming has important implications for both procedural and interactional concept. These issues are discussed next.

4.4 Components of procedural and interactional justice perceptions

As described in previous chapters, justice is related to many important organizational phenomena. However, the elements that constitute procedural or interactional justice perceptions have been significantly less studied. Blader and Tyler(2003$_a$) argued that early efforts to define procedural justice (such as Thibaut and Walker's control model, Leventhal's (1980) rules, and Lind and Tyler's (1988) relational model) have only tried to explain why justice matters, not the areas of concern with regard to the fairness of organizational procedures. There is a lack of empirical research investigating the range of process fairness concerns and how procedural or interactional justice constituent elements are grouped by individuals (Blader & Tyler 2003$_a$, 748; Rupp 2011). Blader and Tyler (2003$_a$) suggest that this lack of research is particularly problematic because it prevents an understanding of what underlies employees' fairness evaluations and leaves several definitional conceptual issues unresolved.

In particular, the source perceptions of the procedural and interactional justice experiences have raised questions. Justice researchers have noted (see e.g. Colquitt et al. 2001; Rupp & Aquino 2009) that previous studies have often confounded the justice source (formalized system/organization or individual agent) and justice content (procedural justice/interactional justice). Due to these inconsistencies, Colquitt et al. (2001) underscored the importance of explicitly separating the justice content from the justice source. This implies that procedural and interactional justice can be a function of an organization or an individual agent (Colquitt & Shaw 2005; Rupp & Aquino 2009).

Similar distinctions have been suggested when scholars have discussed the term "systemic justice". For example, Sheppard, Lewicki and Minton (1992) argued that in addition to outcomes and procedures, systems themselves may be considered fair and unfair. Others (Greenberg 1993; Cobb 1997; Harlos-Pinder 1999; Erdogan 2001; Cropanzano, Byrne, Bobocel & Rupp 2001; Rupp-Cropanzano 2002; Crawshaw 2006; Rupp & Aquino 2009; Brown, Bemmels & Barclay 2010;) have suggested that it is important to distinguish between justice experiences originating from the formalized systems or actions of an individual agent.

Probably one of the most popular conceptualization of this approach is multifoci model (Cropanzano, Byrne, Bobocel & Rupp 2001; Rupp-

Cropanzano 2002; Rupp & Aquino 2009) that separate between supervisory procedural and interactional justice from organizational procedural and interactional justice. Multifoci approach is based on social-exchange theory and emphasizes that real targets of fairness perceptions are those parties with whom individuals have exchange relationships. This approach explicitly underscores the importance of justice sources, not just the justice types (i.e. procedural, interactional or distributive).

These ideas have also found empirical support. For example Cobb, Vest & Hills (1997) found that when individuals evaluate the fairness of their performance appraisals, they perceive both their organization's formal policies and their supervisors as being jointly and independently responsible for the procedural justice they receive in their performance appraisals (Cobb et al. 1997, 1034). Similarly, Erdogan (2001) found that individuals' fairness perceptions were shaped by both those making the appraisals and the formal system itself.

One of the most comprehensive examination involving source perceptions were made by Blader and Tyler (2003a&b) in their papers involving "four component model". Four component model describes the components that are believed to underlie overall procedural justice evaluations. The model consists of two dimensions (see Figure 2). The first is related to procedural element (or content) and the second to the procedural source. These two dimensions and their content are discussed in more detail below.
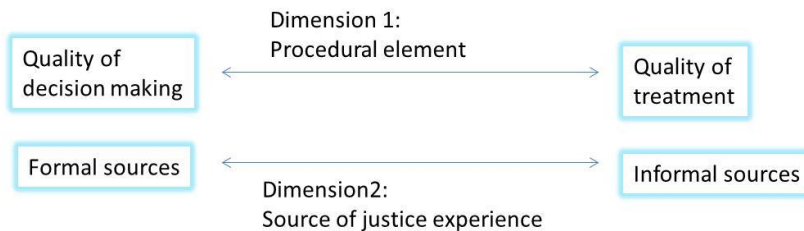
Figure 2. Two dimensions of the four component model

The first dimension, i.e. **procedural elements**, includes two subcategories: *Quality of decisions making* and *quality of treatment*. As the authors noted, the distinction between quality of decision-making and quality of treatment is comparable to the separation between interactional and procedural justice (Blader & Tyler, 2003b, 748). The quality of decision-

making focuses on procedural characteristics related to the fairness of decision-making procedures, i.e. those aspects of procedures that enable individuals to evaluate the decision-making process. The importance of this dimension was highlighted for example by the justice rules defined by Leventhal, the control model's notion of voice and the relational model's notion of neutrality (Blader & Tyler 2003b, 748).

The second element, i.e. quality of treatment, refers to the procedural concerns that are related to the social aspects of groups, i.e. it helps people evaluate their status in a group. These social issues are most visibly represented by the quality of treatment individuals receive as group members or as a party of interaction (Blader and Tyler 2003a&b).

The source of justice experience is added to the four component model as the second dimension of procedural justice evaluations. The model distinguishes between two basic sources of possible fairness information. The first one is the *formal sources* that refer to the policies and rules and prevailing norms of the group as a whole. The formal bases of procedural justice are usually codified and constant across different times and people. They are likely to change slowly.

The second component is the *informal sources* that refer to the actions of particular representatives of the group. They are more dynamic and unique in nature and vary depending on individual qualities.

In the four component model, these two dimensions, i.e. the procedural elements and sources, are traversed to establish four distinct components that cover the areas of justice concerns. They are described in the table 4 below (based on Blader & Tyler 2003a, 117; see also Blader & Tyler, 2003b) more in detail.

Table 4. The four component model

PROCEDURAL ELEMENT	SOURCE OF JUSTICE INFORMATION	
	Formal source	Informal source
Quality of decision-making	Formal quality decision-making: Evaluations of formal rules and policies related to how decisions are made in the group (formal decision-making)	Informal quality decision-making: Evaluations of how particular group authorities make decisions (informal decision-making)
Quality of treatment	Formal quality of treatment: Evaluations of formal rules and policies that influence how group members are treated (formal quality of treatment)	Informal quality of treatment: Evaluations of how particular group authorities treat group members (informal quality of treatment)

When considering the four components of the model, Blader and Tyler (2003[a]) noted that the formal quality of decision-making component resembles the way that procedural fairness has most typically been understood by the previous research (e.g. Leventhal 1980; Thibaut and Walker 1976). In other words, justice perceptions originate from the formal policies and rules of the group. In addition, the informal quality of treatment component embodies those aspects of procedures that have been recognized by interactional researchers (e.g. Bies & Moag 1986), in other words, how a particular group authorities treat group members. However, authors have suggested that the previous literature has not explicitly recognized the other two components of the model.

The first ignored component, formal quality of treatment, refers to how the structural factors might influence on the quality of treatment experienced in the context of one's group membership. The other, informal quality of decision-making, emphasizes the role of individual authorities that implement the formal rules or make decisions when there are no formal rules to guide them (Blader & Tyler 2003[b], 749; Blader Tyler 2003[a], 118).

This study is grounded above ideas. I also suggest that violations of justice (specifically procedural and interactional justice rules) can originate from both the formal sources, i.e. formalized decision-making process (for example codified rules) and from the informal sources, i.e. individuals implementing and participating in those processes (see Colquitt & Shaw 2005). Next, I will describe the framework of this study in more detail.

5. The framework of this study

In this chapter, I will define the framework of this study in more detail based on the aforementioned justice and performance appraisal literature. After that, the ontological and epistemological stance chosen in this study is discussed. The research questions will be presented in Chapter 6.

5.1 The focus of this thesis

I have decided to focus on three gaps in the previous justice literature that are studied in this thesis. In general, they all are related to the discussion about the meaning of procedural and interactional justice, and particularly the experiences of injustice in the performance appraisal process of the merit pay system. Although each issue is next discussed separately, they are all interrelated and supplement each other.

Focus 1: The contents and sources of justice. Previous literature has suggested that experiences of injustice can flow from different justice sources, such as from a formal organizational system or an individual agent (Sheppard, Lewicki & Minton 1992, Greenberg 1993; Erdogan, Kraimer & Liden 2001), and these can operate at the same time with different justice content (Blader & Tyler 2003[a&b]; Rupp & Cropanzano 2002; Colquitt et al. 2001; Colquitt & Shaw 2005; Crawshaw 2006), i.e. decision-making (what I call procedural justice) or treatment (what I call interactional justice). This implies that both procedural justice rules and interactional justice rules can originate from both formal and informal sources. This is illustrated in Figure 3.
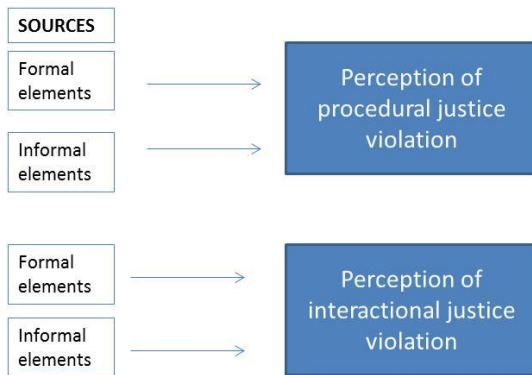
Figure 3. Possible sources of procedural and interactional justice rule violations suggested in this thesis

However, gaps in the literature remain with regard to the different dimensions of justice perceptions, i.e. how sources reveal themselves with respect to the different justice content (i.e. justice rules) (Blader and Tyler 2003a). The justice sources have been largely neglected in previous research (see exceptions such as Blader & Tyler 2003a&b; Cobb, Vest & Hills 1997; Erdogan et al. 2001; Brown et al. 2010; Rupp & Cropanzano 2002) and in particular, how these different sources are interrelated. For the same reason the conceptualization of formal sources of justice (sometimes referred in the previous literature as "systemic justice"[13]) is indefinite. The clarification of these issues might provide important aspects about the basis of individual fairness judgments in any systemic context.

This thesis focuses on these questions by inductively exploring experiences of injustice in the performance appraisal context, and in particular, the sources of those experiences. The exploration is carried out in two phases (see more detailed description in section 7.4 on data analysis). In the first phase, I will follow the idea of grounded theory (Glaser & Strauss 1967; Strauss 1987; Strauss & Corbin 1994; 1990) in order to be as open as possible to my data to capture every possible facet that perceptions of injustice may encompass.

In other words, in this phase I will only focus on the experiences found in my data involving the content and sources of "procedural challenges" identified by interviewees. The term "procedural challenge" does not refer

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[13] The concepts of systemic justice and formal sources of justice are discussed extensively in Chapter 9. This choice reflects the actual research process that took place in this study. The centrality of source perceptions to the results became evident during the data analysis, not beforehand. This shows the benefit of an inductive research process where an open perspective to phenomena can provide some new, unexpected findings.

directly to the concept of procedural justice. It is used loosely to cover interviewees' (negative) experiences of procedures used and treatment received/given in the performance appraisal process. Thus, in this phase I will not yet suggest connection between my findings and previous justice concepts.

After this phase, I will compare the findings of my study involving experiences of procedural challenges to the justice standards defined in the literature. These standards are defined in this thesis as "*justice rules*" and include the six procedural justice rules named by Leventhal (1980) and the two interactional justice rules by Bies and Moag (1986). This implies eight rules: 1) consistency, 2) bias suppression, 3) accuracy, 4) correctability, 5) representativeness, 6) ethicality, 7) interpersonal sensitivity and 8) informational rule.

However, I will not assume any particular source attributions involving these rules, such as that interactional justice rules should originate from interpersonal interaction and procedural justice rules from formal decision-making. Instead, I will be open to the idea that both procedural and interactional justice rules can originate from both informal and formal sources (Colquitt 2005; Blader & Tyler 2003a).

Focus 2: Comparing employees and supervisors' experiences of injustice. The experiences of injustice in the performance appraisal process are studied from both subordinates and supervisors' point of view because they usually evaluate performance appraisals quite differently (Mount 1984; Taylor et al. 1998; Scott et al. 2009). According to the attribution theory (Heider 1954; Jones & Nisbett 1971), individuals will interpret their environment in such a way as to maintain a positive self-image. This implies that people might explain their own and others' behavior differently depending on their role in a given situation (whether they are in the "actor" or "observer" role).

To consider both views is an exceptional approach with respect to previous studies of justice and performance appraisal. As Scott et al. (2009) pointed out, the previous justice literature has mainly focused on the receiver (such as an employee) perspective and mainly neglected the actors' (managers) view. Little effort has been made to understand why managers adhere to or violate justice rules presented in the justice literature (Scott et al. 2009; Patient & Skarlicki 2010). Others have also suggested that more attention should be paid to the role of justice in leadership effectiveness in general (Van Knippenberg et al. 2007). Similarly, Levy & Williams (2004) noted in

their review that research on performance appraisals has tended to focus either on a rater or a ratee, not both at the same time. In particular, rater reactions have been ignored (Schleicher, Bull & Green 2008, 900).

Thus, studying "both sides of the coin" simultaneously is very beneficial in order to gain a better understanding of the experiences of injustice in the performance appraisal process. Previous research has shown that those in a supervisor position are usually more satisfied with most of the performance appraisal system than subordinates are (Narcisse & Harcourt 2008). This is probably due to their different roles and goals in the process (Mount 1984; Wiese & Buckley 1998). Supervisors are usually provided with more training and information about the appraisal system than their subordinates, because of their formal responsibilities in the appraisal process.

In contrast, preparing employees for their role in the appraisal process is much less common (Bretz et al. 1992, 332). This implies that supervisors and subordinates have different levels of knowledge about the pay system and its processes (Mount 1984, 278) which also may in turn explain the differences in pay system reactions (Levy & Williams 1998; Mulvey, LeBlanc, Heneman & McInary 2002; Sweins, Kalmi & Hulkko-Nyman 2009).

In addition, supervisors and subordinates have different roles in the appraisal process itself (Mount 1984). Traditionally, supervisors are the "givers" of information, feedback and decisions, whereas employees are "receivers". Consequently, this leads both groups to evaluate different aspects of the appraisal system. Supervisors evaluate those aspects of the system more closely which help them to fulfill the requirements of the performance appraisal process. In addition, formal systems set boundaries around what supervisors may do, in terms of both treatment and decision-making (Scott et al. 2009). In contrast, subordinates tend to focus on those aspects that help them as a receiver to understand the feedback and quality of the appraisal discussion (Mount 1984).

These role differences should be taken into consideration when justice experiences with performance appraisal process are evaluated (Scott et al. 2009; Levy & Williams 2004; Mount 1984). Exploring the experiences of subordinates is particularly important when the pay systems are primarily supposed to influence the attitudes and behaviors of them (Cox 2000, 372; Erdogan et al. 2001). On the other hand, supervisors, as users of the system, ensure that the system achieves its intended effects (Taylor et al.

1998; Gabris & Ihrke 2000). Thus, managerial values and beliefs about pay-for-performance schemes are also crucial because of their significant role in the application of those systems and organizational effectiveness in general (Harris 2001; Beer & Cannon 2004). Particularly in the performance appraisal context, rater acceptance is believed to be a prerequisite for a successful and effective performance appraisal system (Schleicher, Bull & Green 2008).

Focus 3: Qualitative approach. The final framework issue is related to the methodological choices made in this dissertation. When looking back at the justice literature, there have only been few attempts to gain a more profound picture of individuals' experiences of injustice using a qualitative approach (see studies by Narcisse & Harcourt 2008; Crawshaw, 2006; Harlos & Pinder 1999; Sheppard & Lewicki 1987; Greenberg 1986; Mikula 1986; 1990)[14]. As Blader and Tyler (2003a, 108) pointed out, the fruits of the recent procedural justice research are related to identifying the relationships of procedural fairness and important organizational attitudes and behaviors. Accordingly, this justice research is mainly based on the quantitative methodology tradition (Taylor 2001; Saunders 2006; Fortin 2008) as being a dominant way of doing justice research in recent decades.

However, if the aim is to gain a more profound understanding of the content and sources of justice, an inductive qualitative approach might fit better (see e.g. Taylor 2001, 92; Mikula 1990, 134). As Blader and Tyler noted (2003a), a true basis for what constitutes justice is what people actually think about when deciding if an experience is fair. In other words, the important question here is what are the bases for their evaluations of fairness?

Justice in everyday life and real situations has such complexity and dynamics that it can be difficult to capture with the objectivistic approach and quantitative measures (Taylor 2001; Saunders 2006). For example, closed format questionnaires do not allow the subject to identify any other aspects of the appraisal process that may have contributed to their perception of fairness. Surveys only ask about factors that the researcher believes to be important. Social contexts as well as explanations concerning responses are usually excluded from the examination. This may create a danger that research will focus on matters that are important according to the current theories but have little to do with actual experiences of justice.

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[14] See also Romana, Keskinen & Keskinen(2004) which is a practically orientated qualitative justice study in Finnish context.

It has been proposed that the justice literature might benefit significantly from qualitative studies of the etiology of justice in real life events (Taylor 2001; Saunders 2006). In addition to justice literature, the same lack of qualitative approach has been raised as well in pay system research in general (Heneman & Judge 2000; Werner & Ward 2004) and in the merit pay context (Lowery, Petty, Thompson 1996) in particular.

Because this thesis approaches justice from a different methodological angle than mainstream justice research, it might be appropriate to describe and discuss the philosophical orientation involving this thesis in more detail. This is done in the next section.

5.2 Underlying philosophical assumptions

According to Guba and Lincoln (1994), the term "paradigm" can be used to define a set of basic beliefs in a given piece of research that are based on ontological, epistemological and methodological assumptions.

Ontological questions try to answer questions about reality, such as what is the form and nature of reality and thus, what is the relationship between the individual and reality. Epistemological questions are related to the nature of the relationship between the knower and what can be known. It poses question questions like: how do we know what we know, what counts as knowledge? Methodological questions are related to the research strategy: how knowledge about reality can be systemically accessed.

The understanding of paradigm issues is crucial because different paradigm choices infer different assumptions or basic beliefs that inform and guide the research. Although there are many ways to define research paradigms (see e.g. Burrel & Morgan 1979; Morgan & Smircich 1982), I will next focus only differences between two here: interpretism and functionalism (presented in Burrel and Morgan 1979). As Shah and Corly (2006) suggested, these two paradigms capture the most essential differences between qualitative (like this study) and quantitative studies (like mainstream justice research) in the field of organizational and management research. Neither approach is better than the other. On the contrary, their suitability for a given piece of research is dependent on the research questions being asked (Morgan & Smircich 1982).

One of the main differences between functionalistic and interpretive paradigms is the goal of the analysis (Shah & Corley 2006). Functionalism paradigm emphasizes that research has to be conducted in a replicated way

because the main goal of analysis is theory testing and refinements. Usually research designs are hypothetic-deductive in which previous theories are used to establish hypothesis about the relationships between different variables. This approach denotes that an objective "real" reality exists independently of the perceiver in the form of time and context-free laws, and the "true" state of affairs can be converged by research. Reality can be observed through peoples' senses and discoveries about that reality are expressed as factual statements. A researcher holding this view suggests that reality is "out there", waiting to be discovered. Reality is thus a concrete structure. (Burrel & Morgan 1979; Morgan & Smircich 1982)

Functionalistic approach assumes that knowledge can be discovered through accurate observations of an independent reality to a researcher. Accordingly, it stresses the objective nature of data or observations and emphasizes ways to reduce the effects of researcher bias and interpretation in the process of building knowledge. The goal is to find the most objective methods to achieve the closest approximation of reality. Quantitative methods and terms are used to explain how different variables are related to each other and create outcomes. For example, research findings are mainly presented in numbers that, it is argued, speak for themselves (Burrel & Morgan 1979; Morgan & Smircich 1982; Shah & Corley 2006).

When the goal of the analysis is the theory development (see e.g. Eisenhardt & Graebner 2007) through a deeper understanding of a phenomenon, like in this study, the basic underlying paradigmatic assumptions are also different. Interpretive paradigm emphasizes the subjective interpretation of the surrounding reality (see e.g. Burrel & Morgan 1979; Berger & Luckmann 1967; Weick 1979). This approach does not accept that reality is "out there", independent of individuals. Reality is socially constructed and enacted through language and interpersonal negotiations. Even though there can be multiple realities (depending on the interpreter), the negotiation process leads to frequent sharing of some elements among many individuals or even cultures. This creates social order to some extent. The approach rests on the belief that objects and events have no intrinsic meaning apart from the meaning people assign to them in the course of everyday social action. This means that any construction of reality is not more or less "true" in any absolute sense (Burrel & Morgan 1979; Guba & Lincoln 1994; Dachler 2000).

Although I suggest that there exists some reality that is independent of individuals, I emphasize more than traditional justice researchers the

importance of multiple interpretations concerning justice concept. I suggest (like most justice researcher say they do) that individuals make interpretations about justice and act according to those interpretations. However, I suggest that only those interpretations matter and no "pure truth" can be found behind them. There are similar interpretations, but also differences depending on status, group, age, gender, etc. However, usually these multiple interpretations are not the focus of survey / experimental justice research. The focus is on "level" of justice (interpretations) depending on several other variables. Thus, the concept of justice is seen as quite firm and measurable entity. In contrast, I focus more on the "fragmented justice picture" that may include competitive voices or even contradictions.

Research conducted from the interpretative approach differs also in the procedures involving data gathering and analysis compared to functionalist approach (Burrel & Morgan 1979; Shah & Corley 2006). Interpretative approach assumes that knowledge is the product of an interpretative process present in interaction, i.e. the researcher (not only the subject of the study) has an active role in the knowledge creation process (Moldoveanu & Baum 2002). Because the ultimate goal of the research is to understand the phenomenon, data gathering methods are sensitive to the context such as interviews and observations.

For example in this study, my role in the interviews could be described as participatory and active, not passive and distant, in that I did not try to exclude the influence of the researcher from the interview (Charmaz 2000). I believe that the quality of the interaction during the interviews between a researcher and an interviewee had a significant influence on the quality of the data. When interviews were based on mutual trust, it enabled rich and detailed description of the phenomenon studied.

Rich and detailed description was also emphasized in data analysis by using grounded theory method. According to Langley (1999), this method tends to stay very close to the original data and is therefore high in accuracy and density of description. Hence, grounded theory's sensitivity to data fits the overall aim of this study as well as its ontological and epistemological assumptions. This way the idea of Guba and Lincoln (1994) is followed; the question of methodology cannot be reduced to a question of method; method must be fitted to the predetermined methodology.

Reporting procedures involving methods, data and results are also different in the interpretive approach compared to the research conducted from

functionalistic premises (see Academy of Management journal 2012 "from the editors"). Researchers using qualitative data have usually more latitude in the way they analyze data and present their results than those using quantitative data. Because interpretative process is suggested to be present also in the data gathering and analysis process, the replication of the results is not entirely possible (like in the functionalistic paradigm).

For example in this thesis, I tried to understand participants' implicit meanings of their experiences of injustice to build a conceptual analysis of them. The goal was to understand the texts and reconstruct the reality as authentically as possible based on my subjective understanding and experience related to the phenomenon. This approach explicitly provides an interpretative portrayal of the studied world, not an exact picture of it (Charmaz 2000).

This inherent subjectivity of the analysis requires that the process of analysis must be transparent for the reader. It enables the reader to evaluate plausibility and trustworthiness of the results suggested and overall quality of the study. Thus, qualitative researcher must not only describe their data, it must be "shown". This way the reader can follow the logic of analysis: how the raw data is connected with the analyzed data, and how the analyzed data is connected with the emergent theory.

As a consequence, qualitative studies have to present wider and more detailed sections of methods and results compared to the quantitative studies that are able to refer to the well-known statistical tests and report their (numeric) findings in compact tables and figures (Academy of Management journal 2012 "from the editors"). For example in this thesis, both methods used and results emerged are tried to be described in a detailed manner which also increases the length of those chapters (compared to the other chapters).

6. Research questions

Based on the aforementioned gaps in the literature, the aim of this thesis is to provide a more profound understanding of the concept of injustice in the performance appraisal process. This is achieved by answering two research questions (RQ):

RQ1: What kinds of procedural challenges do employees and supervisors identify with respect to the performance appraisal process in the merit pay context? (RQ1)

> ➢ Who or what is considered to be the source of those experiences (the responsible party)?

RQ2: How are procedural challenges identified by employees and supervisors related to the procedural and interactional justice rules defined in the literature, in other words:

> ➢ What kinds of violations threaten the realization of each justice rule?

> ➢ What are the sources of each justice rule violation?

Research question 1 (RQ1) refers to the content of the procedural challenges identified by employees and supervisors. As noted before the term "procedural challenge" does not refer directly to the concept of procedural justice. The term "procedural challenge" covers widely interviewees' (negative) experiences of procedures used and treatment received/given in the performance appraisal process. More specifically, research question 1 tries to define both the reason (why) and the source (who/what is the responsible party) of the procedural challenge in the context of the performance appraisal process.

Research question 2 (RQ2) connects the challenges discovered to the concept of (in)justice. This is done by proposing the theoretical connections between the challenges found and the procedural and interactional justice rules defined in the literature. In other words, challenges found in this study are shown to be examples of procedural or interactional injustice. The aim is to increase the current understanding about the meanings and the sources that each justice rule may encompass in the context of performance appraisals.

Both research questions 1 and 2 are explored from both employees and supervisors' perspectives. Thus the aim is to find out whether employees and supervisors differ (or not) in their experiences with regard to the appraisal challenges and the content of justice rules.

7. Methods

Next, I will discuss the data and methods used in this study. First, I will present the general background for this thesis. I will give a brief overview about the context of this study, in other words, the Finnish central government sector. In addition, I will also briefly describe the pay system reform in the government sector which introduced performance-based pay to government sector organizations. After that, I will discuss the background to the data, its generation and analysis methods used more closely.

7.1 Merit pay and appraisals in the Finnish central government sector

The central government sector employed some 85,000 employees in 2011, covering 3.5 % of total workforce in Finland. Central government operations are related to the provision of important and indispensable services in the social, business and civic services sectors. During the last twenty years, the government sector labor has decreased by almost 60%. The majority of this decrease is due to converting government agencies and departments into unincorporated state enterprises, incorporated state companies and municipal companies (State Employer's Office 2011).

Pay reform started in the central government sector in the 1990s. Before the pay reform, base pay was mainly determined by a person's organizational position or task title, age increments and years of service. This encouraged employees to stay with an employer because the old pay system enabled automatic pay increases when pay was linked to years of service. Pay scales in the previous system were originally created to support the centralized determination of base pay and were administered mainly by human resource departments (State Employer's Office 1996; Tase 1997.)

Thus, it can be argued that the old pay system was mainly seen as an administrative tool (see e.g. Heneman et al. 2002).

Finally, this centralized pay system led to inflexible and interconnected pay structures. Because the link between pay and organizational management was not clear, it did not motivate employees in the best way to perform in accordance with organizational goals. Pay was also determined mainly by factors beyond the control of an individual employee performance, such as years of service. The main strength of the government as an employer was to supply long employment relationships, often a job for life (Karppinen 2000).

When the challenges relating to the aging workforce, the competition for skilled employees and overall economic pressures increased on a global scale, the same pressures also became evident in Finland (Ministry of Finance 2006). The old pay structures did not meet the new requirements for governmental sector organizations. The government employer could no longer offer a job for life, and the competition for skilled employees increased. At the same time, citizens and business increasingly expected high-quality services from both the central and local governmental sectors (Tase 1997; State Employer's Office 1996; Karppinen 2000). The opening up of the economy to global competition challenged the maintenance of the financial base of public services at the prevailing level. Criticism focused on the quality, quantity and accessibility of the services as well as on bureaucracy and inefficiencies in their production process (Ministry of Finance 2006).

The government as an employer had to seek ways to improve the performance of the public sector. A new pay system was seen as one way to attract and retain talented employees, improve motivation, make employees' accountability visible and facilitate management changes such as work reorganization in order to provide more flexible and responsive services to the public (Tase 1997). One reason for the reform was the assumption that evaluation-based pay systems could promote pay equality and diminish the unfair pay gaps between men and women (see e.g. Jämsén 2006).

The reasons described above increased pressure to reform the pay systems of the governmental sector organizations. The main social partners in the state sector agreed in 1993 on guidelines for developing pay policy. The general goals for the new pay system were fairness, flexibility, motivation

and gender equality. Moreover, the comprehensive collective agreement in the government sector recommended the wider use of job evaluation schemes and performance-based pay. This required organizations to build and implement their own pay systems according to the principles decided at the central level (Tase 1997; State Employer's Office 1996). The new base pay systems were supposed to include (at least) two components: task-based pay and performance-based pay (referred to as merit pay).

The first new pay systems were introduced in a few governmental organizations in 1994. The original target was to have every central governmental sector organization under the new evaluation-based systems by the end of 2003 (Valtiontalouden tarkastusvirasto 2002; Tase 1997, State Employer's Office 2007). However, this target was not achieved. In 2004, as a part of the collective agreement for 2005-2007, the adoption of the new pay system became compulsory for all state agencies by the end of 2005. At the beginning of 2007, the goal was nearly reached when 97.6% of all governmental sector employees were under pay systems based on job and performance evaluation (State Employer's Office 2007).

7.2 Background to the data

This thesis and the data are part of a larger research project, the Equal Pay project, which was carried out at Aalto University (previously Helsinki University of Technology) in 2003-2005 (Huuhtanen et al. 2005). One of its subprojects studied merit pay systems in the governmental sector in Finland. The research project was carried out in six central governmental sector organizations and was financed by participating organizations and the State Employer's Office. The focus of the research project was to identify and support gender-equal and fair pay but also to evaluate and develop systems based on job and performance evaluation in general.

The research project was divided into three phases: evaluation, development and dissemination/post evaluation. In the *evaluation phase*, the functioning of the system was evaluated and suggestions for further development were brought out. Both qualitative and quantitative data were generated by interviews and surveys. In the *development phase,* some specific tailor-made development interventions were carried out according to the needs of the organizations. These interventions were related to pay system structure (for example clarification of measures and scales) as well as to supervisory and employee training and information. In addition, inquiries and interviews on special issues such as the performance appraisal

process were carried. This phase also included workshops where participating organizations gathered together to discuss current issues related to the pay systems. The *dissemination* phase included a re-evaluation of the pay system with the same methods as were used in the development phase as well as seminars and training sessions to implement and disseminate the developed models and practices.

One specific aim of the project was to collect experiences about the performance appraisal process and merit pay in government sector organizations. The data used in this thesis was generated in 2004 from three governmental sector organizations. The case organizations can be characterized as expert organizations and they each employ a staff of between 150 and 200. The organizations had launched merit pay systems over the past five years. Performance appraisals had been used between two and five times (depending on the organization) for pay distribution at the time of data generation. However, all organizations had practiced procedures involving performance appraisals before implementation, although appraisals did not have any effect on pay during that time.

The data generation was carried out by interviewing employees and supervisors and by collecting relevant documents relating to merit pay and appraisals. A total of 48 employees and 24 supervisors were interviewed (see Table 5).

Table 5. Interview participants in the three organizations.

	Supervisors	Employees
Organization 1	8	18
Organization 2	7	17
Organization 3	9	13
Sum	**24**	**48**

Researchers selected interviewees from the list covering the personnel of the organization. This list also included information about persons' job titles / status (employee/supervisor). I personally selected participants for the interviews in organization 1 and 2 and in organization 3 participants were selected by my colleague researcher. However, we shared the same principles for selection: all units of the organizations were represented in the interviews because we selected the supervisor and his/her one to three subordinates from every unit. The employees and supervisors interviewed varied in age, gender, education, and task. This ensured that the experiences of different employee groups were acknowledged.

The organizations' pay system was based on job and performance evaluation according to the general framework and rules defined by the State Employer's Office. This is illustrated in Table 6 (based on State Employer Office 2012). The logic of the merit pay system in all three organizations was basically similar, although the content of performance criteria varied little between organizations. However, all systems included five criteria by which individual performance was evaluated. These criteria were related to several areas such as: 1) professional skills, 2) responsibility, 3) interactional skills, 4) development, and 5) profitability (results).

Table 6. The basis of the pay in the Finnish governmental sector

What are the results?	**Bonuses**	- based on the results or the profit of a unit/team/group - paid if the goals defined beforehand are achieved or exceeded	Variable pay
How is work done?	**Merit pay (performance-based pay)**	- based on performance, competence or qualifications evaluation i.e. performance appraisal	Base pay
How demanding is work?	**Task- / Job-based pay**	- based on task / job evaluation (job descriptions)	

These criteria were evaluated using a 5-point scale, where 1 referred to poor performance, 3 to average performance and 5 to excellent performance. Each criterion was evaluated using this scale. The important detail in the systems studied was related to the link between the appraisal result and pay outcomes. In all systems, performance points received (i.e. performance appraisal result) in the appraisal were directly linked to the amount of merit pay component of the person's base pay. In the central governmental sector organizations, the maximum amount of merit pay can be as much as 50% of a person's task-based pay (State Employer's Office 1996; State Employer's Office 2012).

Performance appraisal interviews were conducted annually as one part of the development discussion. Consequently, during the development discussion session, a person's performance was evaluated, goals for the next period were set, feedback was given, and job requirements were revised. In this way, the pay system was strongly connected to other management tools in addition to the pay distribution function. Performance appraisals were carried out by the employee's immediate supervisor. This process included

the preparation for the performance appraisals, the appraisal interview between a supervisor and a subordinate, and the feedback and justification of results.

The general phases of performance appraisals and tasks for both supervisors and employees are described in Figure 4. It should be noted that sometimes these phases overlapped, particularly at the end of the process. Sometimes, for example, performance appraisal points were decided and discussed during the performance appraisal interview.

	Preparation	Performance appraisal interview	Appraisal outcomes	Pay outcomes
SUPERVISOR	• Evaluating employee performance with appraisal evaluation document • Preparing to give performance feedback and justify appraisal results	Discussing and evaluating employee performance: comparing views (feedback, explanations, justifications) → trying to achieve mutual understanding	Deciding the final appraisal points for employees (if not decided yet)	Appraisal points = pay outcome
EMPLOYEE	• Self evaluation: familiarizing oneself with appraisal documents and prefilling them • Preparing to discuss own performance • Preparing to justify own arguments			

Figure 4. The general phases of performance appraisals in the three organizations

7.3 Interviews and data generation

Patton (1990) distinguished three varying interview approaches that differ to the extent to which the interview questions are determined and which are standardized before the interview occurs: the informal conversational interview, the general interview guide approach and the standardized open-ended interview. These could also be referred to as unstructured, semi-structured and structured interviews according to their standardization level (for different styles see e.g. Fontana & Frey 1994; 2000; Rubin & Rubin 1995; Patton 1990).

In the structured interview (or the standardized open-ended interview, by Patton 1990), the question format is strictly structured beforehand and the role of the interviewer is directive. The interviewer's task is to control the pace of the interviews and the questionnaire is followed in a standardized

and straightforward manner. All respondents receive the same set of questions, asked in the same order. The aim is to minimize the variation in the questions directed at the respondents and to create a neutral, objective and even impersonal context. This also requires the interviewer to play a neutral role (Patton 1990; Fontana & Frey 1994; 2000).

The opposite interview approach to this style is unstructured interviewing (or informal conversational interview, by Patton 1990) which relies entirely on a natural flow of interaction with no categories having been decided on in advance. This approach provides greater breadth to the phenomena under research than the previous one because it attempts to understand the complex behavior in a given social setting without imposing any *a priori* categorization that may limit the field of inquiry. Accordingly, the researcher must ensure that he/she has adequate knowledge about the phenomenon (e.g. the organization) in advance in order to ground the interview and the questions in the specific context. This ensures that the researcher is familiar with any organization-specific language (jargon, concepts) in order to speak the "same language" as the interviewees. This also promotes mutual trust, openness, and interaction during the interviews (Fontana & Fray 1994; 2000).

The interviews conducted as part of this thesis could be described as semi-structured (or Patton's general interview guide approach (Patton 1990)). This approach is located somewhere close to the unstructured approach, but it has also absorbed some qualities from structural interviewing. As the purpose of the interviews in this study was to understand what procedural challenges interviewees had faced in the performance appraisal process and why, semi-structured interviews seemed to be a fruitful basis for data generation. In this approach, the researcher uses an "interview guide" or checklist to make sure that all the relevant topics are covered. Hence, it assumes that there is common information or themes that should be obtained from each interviewee. However, no set of standardized questions are written in advance; only the focus on particular subjects or themes is predetermined (Patton 1990; Fontana & Frey 1994). Accordingly, interviewing is viewed as a flexible, semi-emergent technique; when ideas and issues emerge during the interview, the interviewer can pursue these leads freely (Charmaz 2002).

The interviews in this thesis were conducted by three researchers. During the interviews, there was only one researcher at a time. In Organization 1 (see Table 5) all interviews were carried out by myself. In organizations 2 I

carried out half the interviews and other half were conducted by other researcher. In organization 3, all interviews were carried out other researcher than me. However, I and two other researchers were familiar with all three organizations (and their pay systems) because all researchers cooperated with all organizations during the research project (for example in the form of workshops).

We prepared ourselves for the forthcoming interviews by reading the relevant documents relating to pay system in general and to the merit pay system in particular, e.g. formal instructions concerning the performance appraisals in the three organizations. We also familiarized ourselves with general information about the organizations, their personnel and their line of business. Based on these documents, we created a general interview outline. During that process we received comments on the outline from the other researchers in the project. The themes of the interview covered areas like the structure of the merit pay system, procedures and processes involved in the system (particularly appraisals), and suggestions for development areas.

I made two preliminary test interviews (one employee, one supervisor) with the interview outline in Organization 1, but it did not give me cause to change the initial topics. The same interview outline was used in each organization. Some minor tailoring (for example the concepts and names used) was made in order to better reflect the language used in the particular organization.

The general interview outline for both employees and supervisors is illustrated in Appendix 1. The same outline was used for both groups but the questions were modified according to the interviewee's status. Employees were asked about their own performance appraisal process while supervisors were asked about the appraisal process that they had conducted with their staff. In this way, it was possible to capture the viewpoints of both groups, the "receivers" and "givers" (e.g. Scott et al 2009). Examples of the same interview question tailored for employees and supervisors are presented in Table 7.

Table 7. An example of differences in perspective between supervisor and employee interviewees' questions in the interview outline

Employee	Supervisor
Describe the experiences involving your last performance appraisal interview with your supervisor	Describe the experiences involving the last performance appraisal interviews you had with your employees

Although this thematic frame was used in the interviews, it did not dominate the actual interview dialogue. Interviewees were free to tell their experiences and opinions about the topic. In addition, the formal appraisal documents (organization-specific appraisal form, instructions etc.) were shown to interviewees during the interview and they were free to browse through and comment on them. The role of the researcher in the interviews was supportive and active.

Trust and openness were increased right from the start by telling every participant that all their comments would be treated confidentially and only the researchers would have access to the recorded data. It was also emphasized that the interviews would not be referred to in such a way that an individual respondent could be identified. Hence, the anonymity of the interviewees was strongly emphasized.

To ensure consistent interviewing, we compared our experiences with regard to the content of the interviews and how they were conducted. This peer debriefing (Lincoln & Guba 1985) during the interviewing process helped us to maintain consistent interviewing style. In addition, after the interviews were conducted, we worked together to write summary reports of the central findings to each of the three organizations. These findings were also presented and discussed in the feedback sessions with representatives of each organization.

I personally did not have any particular research question in mind at the beginning of the data generation phase. Instead, it began to develop during the data analysis. Thus, we did not directly ask about injustice/or justice experiences. Instead, we asked the interviewees to tell us about their *experiences* related to performance appraisals and merit pay in general. I determined the unit of analysis (the procedural challenge that was supposed to reflect experiences of injustice) afterwards in the data analysis phase because interviewees seemed to highlight more negative experiences (i.e. procedural challenges) than positive ones. This could be due to the nature of the justice construct. Justice as a construct becomes salient

especially when the norms of justice are violated. Accordingly, reactions to unjust acts are usually more intense than those to just acts (Gilliland, Benson & Schepers 1998).

The interviews lasted between 30 and 90 minutes. All interviews were recorded and transcribed word for word and given an identification code (for example H1, H2, H3). Data analysis was carried out using the ATLAS.TI program, which is designed for qualitative data analysis. Next, the process of data analysis is described and discussed in more detail.

7.4 Data analysis

Although the method of data analysis could be characterized as the grounded theory approach (Glaser & Strauss 1967; Strauss 1987; Strauss & Corbin, 1994, 1990; Goulding 2002), it was also influenced by traditional deductive "theory-driven" analysis (see e.g. Robson 2002). However, I used these approaches in different phases of the analysis.

In the analysis phase I, the aim was to define, identify and outline experiences of procedural challenges (i.e. possible experiences of injustice) from the text. This required an open grounded theory perspective. Therefore, no directive categories or themes were decided in advance.

In the analysis phase II, when identified procedural challenges were compared with the justice rules in the literature, the role of previous theory was emphasized. Thus, in this phase the aim was to find some relationship between emergent categories of my analysis and existing theory. This link between emergent categories and existing theory is also suggested by grounded theory (Strauss & Corbin 1990; see also Glaser & 'Strauss 1967). Next these two phases are described and discussed.

Analysis phase I

The data analysis started with the grounded theory method (e.g. Glaser & Strauss 1967; Strauss 1987; Strauss & Corbin, 1990, 1994; Goulding 2002). The essential element in grounded theory is "the constant comparative method of analysis" and it uses a systematic set of procedures to develop inductively derived theory about a phenomenon (Strauss & Corbin 1990; Glaser & Strauss 1967). The aim is to discover relevant categories and relationships among them: to put together categories in new rather than standard ways. In other words, it is an attempt to reduce the influence of previously developed theories and categories and to read text with an open mind and let the categories and their subcategories "rise" from it (Strauss & Corbin 1990). The first analysis phase of this thesis was carried out in accordance with these principles.

Analysis using grounded theory consists of three major types of coding; a) open coding, b) axial coding, and c) selective coding. Coding refers to operations by which data is broken down, conceptualized and put back together in new ways. The borders between different coding procedures are

artificial and they can take place in different stages. Therefore, the researcher can typically move between different forms of coding without noticing in a single coding session (Strauss & Corbin 1990; Charmaz 2000).

In this study, the process of categorizing could be divided into different stages as the abstract level of the data categorization increased; starting from defining the unit of analysis and ending up with three core categories of procedural challenges (in other words: possible experiences of injustice) reduced from the original texts. However, the different stages of analysis overlapped in practice and occurred simultaneously. The categorizing process was a constant iterative process between already defined categories, deleting categories, codes and emerging categories.

Although I personally carried out the whole categorization process, I discussed the emerging categories with my colleagues throughout the whole process. I asked them to evaluate the categories formed with respect to the authentic text. This ensured that I reflected on my own thinking during the whole categorization process and critically evaluated the choices I made.

A summary of the different stages of analysis in this study is described in Table 8. In the following sections, I will describe the data reduction process stages *in general*, because *both supervisors and employees' texts went through a similar data reduction process*. However, in the actual analyzing process, I analyzed them at different times; I first completed the employee data analysis and after that, I moved on to the supervisor data. This was done on purpose in order to be open to the specific features of each different set of data and to use concepts and codes specific to certain groups of interviewees. In the final stages, after analyzing both texts separately, I compared the categories that emerged from both groups.

Table 8. Different categorizing process stages in the first analysis phase for both employee and supervisor data.

Categorizing stages	Description of the categorization stage
PREPARATORY WORK: Determining the unit of analysis	Reading texts through several times. Defining unit of analysis to be the *expressed experience of procedural challenge: an event or episode, where a person feels that she/he/some other person has been mistreated*
STAGE 1: Finding *initial expressions of procedural challenge experiences* (i.e. unit of analysis) from the text	Identifying and highlighting initial procedural challenge expressions from the authentic interview texts: • 461 initial expressions found from employee data • 356 initial expressions found from supervisor data
STAGE 2: Creating *reduced expressions* from initial expressions	Open coding: employees' 461 and supervisors' 356 initial expressions of procedural challenge were coded into a more compact form (for example to the defining words, short phrases)
STAGE 3: Categorization of reduced expressions to form different *subcategories* ➢ 14 subcategories for employees and 12 subcategories for supervisors were created	Open and axial coding: simultaneously comparing and reducing coded data by dividing it into different units, and coding and naming the emergent units. The focus was particularly on the content of procedural challenge expressions, i.e. the *reason* and the *source* of procedural challenge expressions.
STAGE 4: Reduction of subcategories to *main categories* ➢ Seven main categories for employees and eight main categories for supervisors were created	Open and axial coding: recategorizing the subcategories created by increasing the abstraction level of the analysis. The same focus on the content of procedural challenges was used as in stage 3.
STAGE 5: Creating *final core categories* from the main categories ➢ Three final core categories for both groups were created	Forming final core categories, which were systematically related to other lower level categories
OUTCOME: FINAL THREE CATEGORIES FOR BOTH GROUPS	

The critical data reduction decision in qualitative studies is to determine the unit of analysis. As mentioned before, the unit of analysis started to take shape during the interviews and when I read their transcriptions. It soon became evident that interviewees mentioned negative experiences much more often than positive ones when talking about appraisals and merit pay.

I suggested that these experiences might have something to do with the experiences of injustice.

Thus, I began interested in identifying and analyzing the potential expressions of injustice from the text. Because injustice was not asked about directly in the interview, the potential injustice experience was defined as experienced *procedural challenge* in the performance appraisal process. Following this logic, the unit of analysis in this study turned out to be *procedural challenge expressions in the text*. It covers broadly interviewees' negative experiences of procedures used and treatment received/given in the performance appraisal process. This refers to research question 1 (RQ1).

In a broader sense, (procedural) challenge experience is defined here as an event or episode where a person feels that she/he has been mistreated. It also refers to situations that could potentially create a procedural challenge episode, i.e. general statements about procedural challenges in performance appraisals. Expressions or references could either be in the first person (it happened to me) or a general reference (it happened to someone else/reference to performance appraisals generally). In other words, these situations might violate the norms of justice, e.g. make the justice construct salient.

The first and second stages of categorization. By retaining above described injustice definition (that is: a procedural challenge) in mind, the research texts were read through several times. In the first stage, I identified and highlighted *461 authentic expressions* of procedural challenges from the employees' texts and 356 authentic expressions from the supervisors' texts.

In the second stage, I started the process of reducing the authentic procedural challenge expressions with open coding (Strauss & Corbin 1990) in order to conceptualize them from the data more closely. In this phase, I asked data questions such as; what happened here, why she/he felt mistreated, what caused this challenge, what caused this feeling, etc. *Reduced expressions* were created by attaching short descriptions of procedural challenge to every authentic expression. This meant that the 461 employee and 356 supervisory identified authentic expressions (sentence, paragraph, etc.) were named or coded to something that they was supposed to stand for or represent. Therefore, I reduced the essential message of each authentic expression to the shorter form but actual categorization or lumping together of different expressions did not occur at this point. I

constantly compared procedural challenge expressions with one another as the coding went on and *hints* at the prospective categories started to form. An example of the reduction process for authentic expressions is presented in Table 9.

Table 9. Examples of reducing data from authentic expressions in stage 2

Authentic expression	Reduced expressions
"…I have criticized this system because there are always individuals who don´t highlight their achievements because they are naturally unpretentious…"	Modesty
"I think it depends whether you are ready to defend your opinions and not just be satisfied with the points the supervisor is offering…"	Defensiveness

The third stage of categorization. After these two stages, the process of categorizing the reduced expressions to different *subcategories* started. In this third categorizing stage, I used the method of "axial coding" from grounded theory. Although open and axial coding are distinct analytical procedures, the researcher usually alternates between these two modes when engaging in analysis. In this phase, I simultaneously compared and reduced the data by dividing it into different units, and then coded and named these new units. The phenomenon represented by a category was given a conceptual name. However, this name was more abstract than that given to the concepts grouped under it (Strauss & Corbin 1990).

I utilized *two conditions* in particular when the above-mentioned subcategories were created. The focus was on specifying the phenomenon, i.e. procedural challenge expression in terms of the *content*. The content of the procedural challenge expression was defined here more specifically as the *reason* (what challenge, why did it occur) for the procedural challenge expression as well as the *source* (i.e. the responsible party) of that experience. In the coding process this meant that each expression found in the text was attached to two kinds of codes; a reason code (for example "unclear appraisal") and a source code (for example "pay system administration").

Different types of sources started to emerge as the coding went on. Four kinds of sources, both formal and informal, could be distinguished: the pay system itself, the pay system administration, individuals using the system and one additional category. This last source category seemed to reflect

more structural, formal "preconditions" of the pay system. Accordingly, this category was named "formal preconditions".

However, in practice the distinction between sources was not this clear, because different sources often overlapped. In particular, different forms of sources could occur simultaneously. For example, this happened when a pay system's rules or organizational conditions made individuals that used the system behave in a certain manner. Thus, on many occasions, the formal and more informal sources intertwined and the responsible party was located to both formal and informal issues. In addition, competing views about the sources were generated by different interviewees.

In these situations I had to go back to the data and carefully read through the authentic expressions over and over again in order to decide what was happening in each sentence and what kind of experiences the expressions reflected. If one code could not be chosen to reflect the content of the sentence, I attached two different source codes to it.

For example, the code "unclear appraisal scale" could reflect two kinds of arguments. Others considered that the challenge of an unclear appraisal scale was due to lack of instructions provided by the pay system administration. On the other hand, others considered that the objective appraisal scale is an illusion and individuals will be always subjective in their interpretations. Thus, in general, all interviewees blamed the unclear scale as a reason of the challenge but formulated the source arguments differently. Thus, with respect to the unclear appraisal scale, in both examples the source arguments included the pay system itself (because it consisted of unclear components) and either individuals (who are interpreting it) *or* pay system administration (which had not provided proper instructions).

At this stage, the differences between categories also started emerge. It was obvious that some procedural challenge expressions were targeted to more specific sources (like individual agents), while others were related to more general aspects of the performance appraisal process or pay system. The reasons for procedural challenges also varied a lot, from specific situations to more general level arguments.

The fourth and fifth stages of categorization. In stage four, the 14 employee subcategories were reduced to the seven main categories and the 12 supervisor subcategories were reduced to eight main categories according to the same principles of content. Finally, in both sets of data,

these main categories were eventually reduced to the final three core categories in stage five. The aim in the core category definition phase was to form categories that systematically relate to other categories (Strauss & Corbin 1990). An example of the data reduction process is presented in Table 10.

Table 10. An example of the data reduction process from the employee data

Authentic expression	Reduced expressions	Sub-category	Main category	Final Core category
"…I have criticized this system because there are always individuals who don´t highlight their achievements because they are naturally unpretentious…"	Modesty	Passive style REASON / SOURCE?	Interactional skills of an employee	The performance appraisal interview
"I think it influences whether you are ready to defend your opinions and are not just satisfied with the points the supervisor is offering…"	Defensiveness	Active style REASON / SOURCE?		
"Sometimes people try to influence their appraisals and that situation…"	Persuasion			
"You can say things in many ways…negative things can be also said in a constructive way…"	Constructive feedback	Quality of Feedback	Feedback and justification	
There was no point in conducting performance appraisals and giving feedback because there was no chance of giving more points due to lack of money…	Lack of feedback	Money, points and feedback REASON / SOURCE?		

After carefully analyzing the employee and supervisory data interviews (separately, in five different stages), it was discovered that employees and supervisors identified nearly similar procedural challenges in the performance appraisal interview process. In fact, the analysis phase generated three similar core categories of procedural challenges for both groups. There were some differences between employees and supervisors, but also some similarities inside the subcategories under the three core categories.

For both groups, the final three core categories emerged were 1) measurement of performance, 2) linking pay to performance, and 3) performance appraisal interview. These three categories consisted of eight subcategories, from which seven appeared in a similar way for both groups. However, although identifying similar issues at the subcategory topic level (for example where the topic is "appraisal scale"), the content of these categories varied from small differences to more fundamental ones. Sources of the identified challenges were targeted at individuals, the pay system, the pay administration and "contextual preconditions". An example of one final core category from the employee data is presented in Table 11.

Table 11. An example of final core category from employee data.

The content of procedural challenge (RQ1)	Example (Authentic expression)	Source(s) of the challenges
3. Core category: THE PERFORMANCE APPRAISAL INTERVIEW		
Personal differences and interaction		
Interactional skills of the employees	"…I have criticized this system because there are always individuals who don't highlight their achievements because they are naturally unpretentious…"	➢ Individuals ➢ Pay system itself (favor those with good interactional skills) ➢ Lack of training provided by pay system administration
Will and ability of the supervisor to conduct appraisals	"Some supervisors are more engaged with this system…its success is dependent on the supervisor's activity…HR should provide training for everyone!"	
Dialogue	"This is an interaction situation…it is important that I can also say what I think…then we discuss it together…"	
Feedback and justification		
Quality of feedback	"My supervisor didn't explain why I was given those points…she just wrote them down…"	➢ Pay system itself ➢ Supervisor ➢ Preconditions
Money, points and feedback	"There was no point in conducting performance appraisals because there was no chance to give better points due to lack of money…"	

Although the aim of this thesis is was not to compare the three organizations or to measure the amount of generated expressions, I made some detailed investigation for the data. I compared the categories found for employees and supervisors between three case organizations because it could be possible that experiences of procedural challenges vary between organizational contexts. However, the content of categories found in the study represented procedural challenges found in every three case

organizations, even though the size of the categories found between organizations varied somewhat. The expressions produced by employees and supervisors were also explored in more detail. Supervisors produced between twelve and twenty expressions each and employees produced between six and fifteen expressions each.

Analysis phase II

In the second analysis phase, the previous theories were brought in to the analysis. The final three core categories and their subcategories generated from employee and supervisory interviewees were closely examined in relation to existing justice theories and particularly to the procedural and interactional justice rules in the literature (see definitions of justice rules in tables 2 and 3). The aim was to answer research question 2.

I reread the categories formed in the first analysis phase and asked questions such as "what rules of justice (based on the literature) do these procedural challenge categories (expressions) violate and why?" Hence, the theoretical concepts were attached to the categories reduced from the data. A demonstration of the analysis in the second phase is presented in Table 12. It shows how the proposed links between the procedural challenges identified and justice rules presented in the literature were formed.

Table 12. An example of connecting identified procedural challenges to justice rules.

PERSONAL DIFFERENCES AND INTERACTION			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
INTERACTIONAL SKILLS OF THE EMPLOYEE			
Employees	**If personal styles and interactional skills of the employee affect the decisions made by the supervisor:** ➢ Equality may not exist between employees	CONSISTENCY	➢ Individuals ➢ Pay system ➢ Pay system administration
	➢ Appraisals may be based on impressions, not on accurate information about performance	ACCURACY	

When each core category (and the category hierarchies inside them) was compared to the justice rules in the literature, it was found that some categories violated more than one justice rule. It was also found that the justice rules were related to each other; a violation of one rule was related to

a violation of some other rule. For example, when the interactional skills violated the rule of accuracy (if appraisals were not based on performance), this in turn violated the rule of consistency (employees were not in an equal position in appraisals due to their impression management skills). These and other findings are discussed extensively in the following chapters, where the results of this study are presented.

8. RESULTS:
Challenges of performance appraisal process and justice rules

As illustrated in the previous chapter, in the first analysis phase, both employees' and supervisors' expressions of procedural challenges were coded into three categories according to their content.

The aim was to answer research question 1 (RQ1): What kinds of procedural challenges do employees and supervisors have with respect to the performance appraisal process? The content of the challenge expression was examined more closely against the *reason for* as well as the *source of* the procedural challenge expression.

The procedural challenges identified by both groups were related to 1) measurement of the performance, 2) linking pay to performance, and 3) the performance appraisal interview. Under these three core categories, eight subcategories emerged. Seven out of these eight formed similarly for both groups, although the content and emphasis varied within the same topic between groups. The sources of the challenges were related to either 1) individuals, 2) the pay system itself, 3) pay system administration, 4) preconditions of the pay system, or a combination of these four sources.

Table 13 shows the core categories and their subcategories based on the interviews.

Table 13. The three core categories and their subcategories found from the employee and supervisor interviews.

	Challenges identified by employees	% N=461	Challenges identified by supervisors	% N=356
Measurement of performance E= 35% of total S= 52 % of total	**UNCLEAR APPRAISAL SCALE**			
	➤ Lack of instructions provided by pay system administration (14)	15 %	➤ Lack of instructions provided by pay system administration (27) ➤ Lack of instructions to use appraisal scale (25)	24 %
	➤ Inherent subjectivity of appraisal scale (55)		➤ Inherent subjectivity of appraisal scale (35)	
	UNCLEAR PERFORMANCE CRITERIA			
	➤ Lack of instructions provided by pay system administration (9) ➤ Inherent subjectivity of criteria (10)	4 %	➤ Lack of instructions provided by pay system administration (12)	3 %
	LIKING			
	➤ Liking between members in the same group (34)	7 %	➤ The influence of liking between groups (17)	5 %
	PERFORMANCE KNOWLEDGE			
	➤ Lack of knowledge of employee performance (39) 　o Distance 　o Expertise 　o Experience 　o Supervisors' time	9 %	➤ Lack of knowledge of employee performance (30) 　o Distance 　o Expertise 　o Experience 　o Number of subordinates	8 %
	UNCLEAR DECISION-MAKING PROCESS			
			o Unclear rules and lack of knowledge about decision-making process (44)	12 %
Linking pay to performance E= 23 % of total S= 19 % of total	**DISTORTED LINK BETWEEN APPRAISALS AND PAY**			
	➤ Limited pay budget and points (60) ➤ Restrictive instructions (23) ➤ Calibration of the appraisal results (21)	23 %	➤ Limited pay budget and points (67)	19 %
Performance appraisal interview E=43% of total S= 28% of total	**PERSONAL DIFFERENCES AND INTERACTION**			
	➤ Interactional skills of the employees (57) ➤ Will and ability of the supervisor to conduct appraisals (46) ➤ Dialogue (voice) (34)	30 %	➤ Differences in interaction (24)	7 %
	FEEDBACK AND JUSTIFICATION			
	➤ Amount and quality of feedback (20) ➤ Money, points and feedback (39)	13 %	➤ Difficult feedback (28) ➤ Money, points and feedback (38) ➤ Amount of feedback (9)	21 %

In addition, the connection between the procedural challenges identified in every core category and the justice rules described in the literature was examined in order to answer research question 2 (RQ2): How are procedural challenges identified by employees and supervisors related to the procedural and interactional justice rules defined in the literature? By answering this question, the procedural challenges found in this study are shown to be examples of procedural or interactional injustice.

Each of these three core categories, their subcategories and the suggested connections with the justice rules will be discussed in the following chapters. The specific logic is followed when the results are presented. Three core categories are discussed one subcategory at a time starting from employees' experiences and then moving on to discussing supervisors' experiences. After that I make a brief summary of the findings concerning the subcategory in question, and connect the findings to the justice rules defined in the literature. This implies the following hierarchy of heading when the results are presented, for example results involving first two subcategories in core category I are presented in following order:

8.1. CORE CATEGORY I: MEASUREMENT OF PERFORMANCE

        8.1.1 Unclear performance appraisal scale (subcategory)

- Challenges identified by employees
- Challenges identified by supervisors
- Summary of challenges identified by employees and supervisors
- The connection between identified challenges and justice rules

        8.2. Unclear performance criteria (subcategory)

- challenges identified by employees
- challenges identified by supervisors
- Summary of challenges identified by employees and supervisors
- The connection between identified challenges and justice rules

The same logic is used for all subcategories in core categories I, II and III. After presenting all the results, I will make summaries of the central findings concerning the two research questions in sections 8.4.1 and 8.4.2.

8.1 Core category I: Measurement of performance

This core category consisted of challenges that referred to the measurement of performance. It included subcategories involving appraisal scale, performance criteria, liking, performance knowledge and the decision-making process in the implementation of the pay system. Although both supervisors and employees identified almost the same challenges, they emphasized the content differently as well as the sources of challenges. In addition, some of the categories were only identified by supervisors and not by employees. The challenges are presented in Table 14 below. Next, the measurement of performance category is discussed in more detail, focusing on one subcategory at a time.

Table 14. The content of core category I: Measurement of performance

	Challenges identified by employees	% N=461	Challenges identified by supervisors	% N=356
Measurement of performance E= 35% of total S= 53% of total	**UNCLEAR APPRAISAL SCALE**			
	➤ Lack of instructions provided by pay system administration (14) ➤ Inherent subjectivity of appraisal scale (55)	15 %	➤ Lack of instructions provided by pay system administration (27) ➤ Lack of instructions for the use of appraisal scale (25) ➤ Inherent subjectivity of appraisal scale (35)	24 %
	UNCLEAR PERFORMANCE CRITERIA			
	➤ Lack of instructions provided by pay system administration (9) ➤ Inherent subjectivity of criteria (10)	4 %	➤ Lack of instructions provided by pay system administration (12)	3 %
	LIKING			
	➤ Between members in the same group (34)	7 %	➤ Between groups (17)	5 %
	PERFORMANCE KNOWLEDGE			
	➤ Lack of knowledge of employee performance (39) ○ Distance ○ Expertise ○ Experience ○ Supervisors' time	9 %	➤ Lack of knowledge of employee performance (30) ○ Distance ○ Expertise ○ Experience ○ Number of subordinates	8 %
	UNCLEAR DECISION-MAKING PROCESS			
			➤ Unclear rules and lack of knowledge about decision-making process (44)	12 %

8.1.1 Unclear performance appraisal scale

The first subcategory in the measurement of performance category was related to unclear performance appraisal scales. Challenges were seen to originate from poor instructions regarding the appraisal scale or alternatively to the inherent subjective nature of the scale. In general, both employees and supervisors identified these same challenges but supervisors also identified one additional theme involving the *use* of the appraisal scale.

Two competitive views were presented when interviewees discussed the sources of the unclear performance appraisal scale. Some interviewees saw that objective performance measures were impossible to create, and thus individuals' subjective interpretation was always present. On the other hand, others saw the problem as being more practical and considered that the unclear appraisal scale was a consequence of insufficient instructions provided by the pay system administration. (see Table 15).

Table 15. The challenges and sources of the "unclear appraisal scale" category

<table>
<tr>
<th colspan="2" rowspan="2">CHALLENGES IDENTIFIED</th>
<th colspan="3">Sources</th>
</tr>
<tr>
<th>Individual(s)</th>
<th>Pay System</th>
<th>Pay system administration</th>
</tr>
<tr>
<td rowspan="5">UNLCEAR APPRAISAL SCLAE</td>
<td rowspan="2">Employees</td>
</tr>
<tr>
</tr>
</table>

<table>
<tr>
<th colspan="2" rowspan="2">CHALLENGES IDENTIFIED</th>
<th colspan="3">Sources</th>
</tr>
<tr>
<th>Individual(s)</th>
<th>Pay System</th>
<th>Pay system administration</th>
</tr>
<tr>
<td rowspan="10">UNLCEAR APPRAISAL SCLAE</td>
<td rowspan="4">Employees</td>
<td>**Lack of instructions provided by the pay system administration**</td>
<td></td>
<td>Pay system consist of unclear elements, i.e. appraisal scale</td>
<td>Pay system administration does not provide sufficient instructions for appraisal scale</td>
</tr>
<tr>
<td>**Inherent subjectivity of appraisal scale**</td>
<td>Individuals interpret subjective scale differently</td>
<td>Pay system consist of subjective elements, i.e. appraisal scale</td>
<td></td>
</tr>
<tr>
<td rowspan="6">Supervisors</td>
<td>**Lack of instructions provided by pay system administration**</td>
<td></td>
<td>Pay system consists of unclear elements, i.e. appraisal scale</td>
<td>Pay system administration does not provide enough instructions for appraisal scale</td>
</tr>
<tr>
<td>**Lack of instructions for the use of appraisal scale**</td>
<td></td>
<td>The use of appraisal scale is unclear</td>
<td>Pay system administration does not provide enough instructions for the use of appraisal scale</td>
</tr>
<tr>
<td>**Inherent subjectivity of appraisal scale**</td>
<td>Individuals interpret subjective scale differently</td>
<td>Pay system consist of subjective elements, i.e. appraisal scale</td>
<td></td>
</tr>
</table>

Next, the challenges involving the unclear appraisal scale category are described in more detail. I will start with employees' experiences and then continue by describing supervisors' experiences.

Challenges identified by employees

Employees identified two reasons when they discussed the challenges involving the unclear appraisal scale: The lack of instructions provided by the pay system administration and the inherent subjectivity of the system itself. Sources of the challenge were also targeted differently, depending on the reason identified.

Lack of instructions provided by the pay system administration. The lack of clear definitions for each step of the scale was seen as a threat to equal measurement of performance. Employees complained that they did not understand the different levels of appraisal scale Although there were written definitions (such as 3 = good performance) for every level of appraisal scale, employees found it hard to distinguish between the different levels in practice. This was particularly the case with the highest and lowest levels of the scale. More definitions and concrete explanations were needed for every performance level in order to ensure better understanding of the performance scale.

> *'Well, I think the system should be more transparent and clear. More instructions and training is needed in order to avoid the different use of the scale.'*

Other arguments were related to the implementation of the performance appraisal scale in different tasks. In addition to general definitions of different performance scale levels, task-specific instructions and definitions were also needed. Employees suggested that supervisors find it hard to evaluate the performances required in different tasks, especially when they vary from professional to more repetitive tasks. More concrete examples were needed.

> *'It is complicated to understand what for example "good performance" means in the different tasks…when the demands of the jobs vary so much.'*

Employees thought that the challenges described above would create problems if different supervisors understood the appraisal scale differently. However, interviewees saw that these challenges could be overcome if more instructions and training were provided. Thus, the sources of these challenges were mainly seen as being the actions of the pay system administration.

The inherent subjectivity of the appraisal scale. This category included arguments about the interpretation of the appraisal scale. These arguments were very close to the category discussed above. However, when the previous category dealt with training, instructions and definitions of appraisal scales, this category consisted of arguments involving more fundamental challenges with the appraisal scale. The source of challenges was related to the inherent subjectivity of the appraisal scale as well as to the human qualities, i.e. subjective interpretation, which were considered always present in the appraisals.

The appraisal scale used raised questions about the inevitable subjective interpretation related to the appraisal scale. This was seen as a threat to the equal measurement of performance. Interviewees criticized the ideal of objective measurement of performance, which was not possible, at least in professional tasks. Many argued that appraisals are always based on subjective perception because the measures of performance appraisals are subjective in nature. Thus, supervisor's values and standards are always present in the appraisal process.

'In general, I don't like this type of evaluation because it is not objective...and it never will be... despite the evaluation tool.'

Consequently, many thought that some supervisors are more critical and tolerate fewer performance mistakes than more positive ones. Thus the definition of "good performance" was dependent on the interpreter, i.e. the supervisor who measured the performance. Although the appraisal scale was the same for every supervisor, it was interpreted from one's own, subjective viewpoint.

This was particularly seen as problematic when comparing the appraisal results between different units. As interviewees pointed out, it was unclear whether differences in appraisal results were due to differences in actual individual performance or the different use of the appraisal scale. The subjectivity and variety of interpretations were seen as a threat to the commensurability of appraisals.

'I think the biggest problem is the commensurability of the appraisals....the whole appraisal is dependent on the person doing that appraisal, what kind of person she/he is.'

Some arguments were related to the quantitative measurement (using quantitative appraisal scale) of qualitative attributes, which is a typical case in evaluation-based merit pay systems. Some argued that the performance

appraisal is based on the measurement of qualitative (many times abstract) attributes and should not be treated as quantitative measures. This is particularly the case when the accuracy of the measurement instrument is high (for example with the use of decimals).

> *'This is an evaluation of qualitative attributes... not quantitative...it's funny how these numbers are treated as if they could tell exactly and accurately about a person's performance...we are trying to evaluate abstract issues here with sharp, quantitative measures... '*

Accordingly, the source of the unclear appraisal scale was seen as a combination of two aspects: the pay system itself and individuals' subjective interpretations involving it.

Challenges identified by supervisors

Supervisors also identified several reasons for the unclear appraisal scale. They emphasized the role of instructions both in the definitions and in the use of the appraisal scale. Like employees, they also identified the subjectivity of the appraisal scale.

Lack of instructions provided by the pay system administration. Supervisors' arguments in this category were very similar to the employees' corresponding category described earlier: the lack of clear definitions and instructions for the appraisal scale created challenges for the successful implementation of appraisals. Supervisors complained that the vagueness of the appraisal scale levels made it difficult to understand it. More concrete examples and training were needed to describe what the different levels of appraisal scale meant. As employees, supervisors targeted the lack of instructions and training as a failure of the pay system administration.

> *'The appraisal scale is too general...it should be more concrete. More instructions and specifications are needed...some facts. Now it is based on subjective assumptions.'*

Lack of instructions for the use of the appraisal scale. Supervisors, but not employees, emphasized some other practical implementation problems involving unclear performance scale. Supervisors complained that insufficient guidelines concerning the use of the appraisal scale created inconsistencies in the procedures between units. Interviewees identified several problems related to this issue. Firstly, interviewees believed the use of points varied between different units. There were not, for example, clear principles as to whether points should be given in whole numbers or if a supervisor could use half numbers or decimals. Secondly, there were no

policy for the division of points at the unit level; should there be notable pay rises for a few employees or should there be minor rises for the majority of employees? Thirdly, supervisors believed that some units connected appraisal results more strictly to pay than others. This meant that some supervisors used the given performance points to strictly determine the actual pay rise, when other supervisors might have used other determinants as well (current pay level, the last pay rise etc.)

> 'We should have some common way of implementing this. Some use the scale
> more strictly than others…give bigger pay rises to only a few employees when
> others try to give smaller pay rises to many …'

The sources of these problems were considered to originate from the pay system administration, which failed to provide proper principles for the appraisal scale implementation.

The inherent subjectivity of the appraisal scale. Supervisors also identified problems that were considered to be a consequence of the subjective appraisal scale. Like employees, supervisors emphasized that there would always be differences in the interpretation of the appraisal scale regardless of the instructions. Due to this, supervisors implemented the appraisal scale differently. Many supervisors questioned whether they understood the scale, as did the supervisors from other units. Supervisors concluded that there should be "shared understanding" between supervisors about the appraisal scale used. This was not only promoted through formal training and instructions but also through interaction and discussions between supervisors. However, many still believed that the subjective element would always be present in the appraisals.

As with employees, supervisors also discussed the problem by referring to the subjective appraisal scale itself and/or the human interpretation processes in general. The subjective appraisal scale gave too much freedom for personal differences and preferences that would always distort the realization of objective appraisal.

> 'This evaluation is affected by personal, subjective issues. Always. The goal of
> objective appraisal is unrealistic, subjective issues will always have an
> influence.'

Supervisors felt that the subjective appraisal scale created problems between supervisors as well as the discussion between the supervisor and the individual employee. If the supervisor and the employee did not share the same understanding about the meanings of the appraisal scale's levels,

it created challenges for performance appraisal discussion and giving feedback. Due to this, they considered that mutual understanding about the performance appraisal scale should be attained throughout the personnel.

'We should try to create a shared understanding about the scale…it needs to be discussed throughout the personnel…that we share the same understanding for example about level four…what does it take to get that in the evaluation? As long as we do not have that shared understanding, evaluations will vary between individuals. As if we are using the same concepts but meaning different things. It also complicates the performance appraisal interview and feedback on performance.'

Summary of challenges identified by employees and supervisors

Employees and supervisors identified similar problems related to the unclear performance appraisal scale. The problem with the unclear appraisal scale was attributed either to a lack of clear instructions (i.e. the task of pay system administration) or the inherent subjectivity of the performance appraisal scale and interpretation related to it. The difference between these two categories was that in the former the problem was able to be fixed by providing more instructions and training. However, in the latter category the problem was more fundamental in nature and was considered ever-present in these kinds of appraisal systems.

Two particular observations emerged when the content of supervisors and employees' arguments were compared. Employees emphasized more than supervisors challenges related to the subjectivity of appraisal scale and the interpretation issues related to it. They were particularly concerned about how different supervisors would interpret the same appraisal scale differently due to their personal differences. The source of that problem was seen as individuals using the system as well as to the system itself that made the subjective interpretation possible. However, in this category employees did not blame supervisors for intentionally favoring some employees/groups over others. They saw that the system, i.e. the subjective appraisal scale, gave too many opportunities for supervisors' personal interpretation. Thus, this caused differences in the use of the appraisal scale between supervisors.

On the other hand, supervisors emphasized the lack of proper instructions involving the appraisal scale and the practical difficulties related to it to a greater extent. They were particularly concerned about how to use the unclear appraisal scale and hoped for more guidelines on this. Supervisors

saw that the lack of proper instructions caused differences in the use of scale between units. They targeted their complaints at the pay system administration, i.e. human resource management. Although supervisors also discussed the problem with interpretations related to the subjective appraisal scale, they did not emphasize it as much as employees. They particularly described how this "interpretation aspect" complicated the appraisals made between different supervisors but also performance-related discussions between supervisor and employees. The focus was on the "difficult implementation of the system" while employees focused more on the "ill content" of the system.

The connection between identified challenges and justice rules

The challenges described above were related to the unclear performance appraisal scale. Suggested links between these challenges and justice rules in the literature are presented in Table 16. These connections are discussed in more detail next.

Table 16. Proposed links between identified procedural challenges and justice rules

UNCLEAR APPRAISAL SCALE			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Violation of the justice rule(s)	The source(s) of the challenge
THE LACK OF INSTRUCTIONS PROVIDED BY THE PAY SYSTEM ADMINISTRATION			
Both employees and supervisors	**Lack of clear definitions and instructions:** ➢ Appraisal scale could be understood differently and inaccurately	ACCURACY	➢ Pay system ➢ Pay system administration
	➢ Inconsistent use of appraisal scale between supervisors is possible	CONSISTENCY	
LACK OF INSTRUCTIONS FOR THE USE OF APPRAISAL SCALE			
Supervisors	**Lack of instructions for the use of the appraisal scale (the distribution and use of performance appraisal points):** ➢ Performance appraisal points are used differently depending on the supervisors and the unit	ACCURACY CONSISTENCY	➢ Pay system ➢ Pay system administration
THE INHERENT SUBJECTIVITY OF APPRAISAL SCALE			
Both employees and supervisors	**Inherent subjectivity of the appraisal scale causes:** ➢ Dfferent interpretations of the appraisal scale	ACCURACY	➢ Pay system ➢ Individual subjective interpretation
	➢ Implementation differences between users	CONSISTENCY	
Supervisors	➢ If supervisors and employees interpret appraisal scale differently, the feedback and justification in the appraisal interview is difficult	INFOR-MATIONAL JUSTICE	

A comparison of these procedural challenges with the justice rules in the literature suggests that the unclear appraisal scale may violate the rules of accuracy, consistency and informational justice (feedback and justification).

The rule of *accuracy* is questioned if the lack of instructions or different interpretations related to the appraisal scale causes individuals to understand the scale differently. Both groups identified this challenge.

In the same vein, if the appraisal scale is understood differently due to the lack of instructions or its inherent subjectivity, the *consistent use* of the scale among different supervisors/units become challenging. Supervisors also discussed how the lack of guidelines to *use* the appraisal scale might jeopardize the consistency of appraisals between units.

On the other hand, supervisors were more concerned than employees about how different interpretations between employees and supervisors might challenge the discussion in the performance appraisal interview, particularly challenging the rules of the *informational component* of interactional justice.

8.1.2 Unclear performance criteria

In this category, the challenges were related to the performance criteria used in the appraisal. The content of this category was very similar to the category of the performance scale discussed above.

It was argued that challenges with unclear performance criteria were related to either insufficient instructions provided by the pay system administration or the inherent subjectivity of criteria. Supervisors discussed the lack of instructions only, whilst employees also saw the inherent subjectivity of criteria problematic. Thus, the sources of these challenges were seen as being both individual actors as well as the pay system and its administration (see Table 17 below).

Table 17. The challenge and sources of the "unclear performance criteria" category

CHALLENGES IDENTIFIED			Sources of the challenges		
			Individual(s)	Pay System	Pay system administration
UNCLEAR PERFORMANCE CRITERIA	Employees	Lack of instructions provided by pay system administration		Pay system consists of unclear elements, i.e. appraisal criteria	Pay system administration does not provide enough instructions for the content of appraisal criteria
		Inherent subjectivity of criteria	Individuals interpret subjective criteria differently	Pay system consists of subjective elements, i.e. appraisal criteria	
	Supervisors	Lack of instructions provided by pay system administration		Pay system consists of unclear elements, i.e. appraisal criteria	Pay system administration does not provide enough instructions for the content of appraisal criteria

In the following sections, I will discuss the subcategories of the unclear performance criteria category in more detail. I will start by describing employees' experiences and after that, supervisors' experiences are discussed.

Challenges identified by employees

Employees discussed two aspects with respect to the unclear performance appraisal criteria; lack of instructions and the inherent subjectivity of it. In addition, different sources for this challenge were identified.

Lack of instructions provided by the pay system administration. The performance criteria used were seen as abstract and vague, and employees didn't know what they meant or what they were supposed to mean in their own work context. More concrete examples and instructions were hoped for from the pay system administration. It was argued that without concrete examples, everyone perceived these criteria from their own point of view, and this created multiple, even contradictory interpretations about their content and meaning. In addition, when the criteria were considered to be vague and abstract, their verification also became problematic.

'These criteria are based on subjective views…are we talking about different things when using same concept…what is meant by professional skills…your education or what you can do with it? More concrete examples, please.'

In addition, it was argued that the dividing line between some criteria was blurred. Different criteria were not seen as mutually exclusive. More precise definitions were demanded from the pay system administration for of each criterion order to clarify the intended meaning.

'How can you distinguish between professional skills and sense of responsibility, there ain't one without the other…'

Inherent subjectivity of criteria. However, some interviewees did not believe that instructions would help clarifying the criteria. It was argued that the criteria were always subjective. Many argued that objective measures could not be formed because professional work is not easily reduced to quantitative units. According to the interviewees, there will always be an inherent subjective aspect in the criteria interpretation, i.e. it is made from the supervisor's subjective point of view and is not based on objective facts.

'Instructions are only rhetoric; these are and will always be interpreted differently…'

Challenges identified by supervisors

Supervisors identified the same problems with the appraisal criteria as employees did. However, their emphasis was more on the insufficient instructions involving the criteria, and they did not discuss the inherent subjectivity involving them.

Lack of instructions provided by the pay system administration. As employees, supervisors hoped for better examples of the criteria used: what did they mean in their own organizations, what kind of performance should be observed, what was the difference between two criteria? They were specifically concerned about how to use the performance criteria correctly. The source of these difficulties was seen as the lack of proper criteria descriptions, i.e. the task of the pay system administration.

'HR should provide better instructions than these. These instructions are very unspecific.'

Summary of challenges identified by employees and supervisors

Both employees and supervisors identified the same challenge with unclear performance criteria. However, the challenges were discussed with respect to different sources. Supervisors emphasized the role of instructions in solving the problem. Although employees also emphasized the role of instructions, they were more skeptical about whether there will always be subjective interpretation elements in the appraisals.

The connection between identified challenges and justice rules

When comparing challenges identified with justice rules, the rules of accuracy and consistency were questioned. Challenges identified and their proposed justice rule violations are presented in Table 18 and discussed below.

Table 18. A proposed link between the identified challenge and justice rules

UNCLEAR APPRAISAL CRITERIA			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
LACK OF INSTRUCTIONS PROVIDED BY PAY SYSTEM ADMINISTRATION			
Both employees and supervisors	**Lack of instructions:** ➢ Appraisal scale could be understood differently	ACCURACY	➢ Pay system ➢ Pay system administration
	➢ Inconsistent use of appraisal scale is probable	CONSISTENCY	
INHERENT SUBJECTIVITY OF CRITERIA			
Employees	**Inherent subjectivity of appraisal scale:** ➢ Different interpretation of the appraisal criteria	ACCURACY	➢ Pay system ➢ Individual subjective interpretation
	➢ Different use of the appraisal criteria between supervisors	CONSISTENCY	

The challenges with unclear performance criteria violated *accuracy* and *consistency* rules of justice. If performance criteria are blurry for one reason or another, the accuracy of a measure becomes challenged. In addition, if different individuals understand criteria differently they will

probably use them differently. This threatens the consistency of performance appraisals.

8.1.3 Liking

In this category, both employees and supervisors discussed the role of liking in the appraisals. Employees emphasized that personal relations between an employee and a supervisor can distort appraisals. The source of this challenge was seen as the pay system itself, individuals and their characteristics. Supervisors also emphasized the role of the pay system administration. Supervisors emphasized the problem of liking between groups more, while employees described liking as a phenomenon within one group. These categories are presented in Table 19 and discussed next.

Table 19. The challenges and sources of the "liking" category

CHALLENGES IDENTIFIED			Sources of the challenges		
			Individual(s)	Pay System	Pay system administration
LIKING	Employees	**Liking between members in the same group**	Personal relationship between a supervisor and an employee may affect the performance appraisal results	Subjectivity of the pay system gives space for liking	
	Supervisors	**Liking between groups**	Supervisor may favor his/her own group compared to other groups in the organization	Subjectivity of the pay system gives space for liking	Pay system administration is responsible for controlling the influences of liking between units

Challenges identified by employees

Employees argued that liking may threaten the fair appraisals. Next, employees' experiences are presented in more detail.

The influence of liking inside the group. Employees were concerned that the appraisal results might be affected by interpersonal chemistry between a supervisor and an employee and, at worst, by intended favoring. This category is very close to the "subjectivity of the appraisal scale" category, because challenges in this category also deal with lack of objectivity of measurement. However, in this category interviewees talked about one specific form of challenge that could also jeopardize the fair

treatment: a personal relationship. This could particularly affect appraisals without objective measures for performance. Employees complained that interpersonal chemistry is always present in the appraisal and cannot be moved aside. Thus, the source of these challenges was seen as the pay system that is not objective enough as well as individual inherent subjectivity.

> *'How can you overcome the fact that supervisors get along better with some employees than others...this easily influences the results...'*

> *'It's human...you cannot get rid of it...'*

Challenges identified by supervisors

Supervisors also discussed the role of liking in the appraisals. However, their approach to this challenge was broader than that of employees.

The influence of liking between groups. Supervisors described that there were differences in the appraisal results due to insufficient instructions and the subjectivity of the appraisal scale, as mentioned above. In addition to unintended flaws in appraisals, some interviewees argued that some supervisors tried to give more points to their own group. This was identified in the summaries made from the inter-unit level appraisals. Although supervisors also noted that the problem was supervisory-related, they also emphasized that the pay system administration should control this.

> *'Some supervisors were using the scale differently to others. Some maybe intentionally'*

> *'The comparable use of the scale must be controlled by HR...because supervisors tend to think that their own unit is, of course, the best...'*

Summary of challenges identified by employees and supervisors

When comparing employees and supervisors' arguments involving liking, similarities and differences were found. Both groups emphasized that the subjectivity of the appraisal tool might give space to different treatment of employees, particularly to liking and favoring. However, supervisors and employees emphasized different things. Employees were concerned that supervisors favored some employees in their own group based on liking. In contrast, supervisors were more concerned about the "bigger picture", in other words, influence of liking between groups. The main concern was that

other supervisors were trying to pull their own subordinates' appraisal up compared to other units.

The connection between identified challenges and justice rules

The link between challenges identified by employees and supervisors and the proposed connection to the justice rules are presented in Table 20. As can be seen, the rules of bias suppression, accuracy, consistency and ethicality are violated with regard to the challenges identified by both groups.

Table 20. A proposed link between the procedural challenges identified and justice rules

LIKING			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
LIKING BETWEEN MEMBERS OF THE SAME GROUP			
Employees	**If liking influences appraisals:** ➢ Appraisals are based on liking, not actual performance	BIAS SUPPRESSION	➢ Pay system ➢ Individuals
	➢ Appraisal are not based on accurate information	ACCURACY	
	➢ Appraisals are distorted based on liking	ETHICALITY	
	➢ Employees are not treated equally	CONSISTENCY	
LIKING BETWEEN GROUPS			
Supervisors	**If liking between groups can influence appraisals:** ➢ Appraisal results are influenced by group membership, not actual performance	BIAS SUPPRESSION	➢ Pay system ➢ Individuals ➢ Pay system administration
	➢ Appraisals are distorted based on liking	ETHICALITY	
	➢ Appraisal are not based on accurate information	ACCURACY	
	➢ Employees are not treated equally between different groups	CONSISTENCY	

Both groups saw that the subjective pay system allowed personal preferences and liking to influence appraisals. Awareness of liking either at the "inside one group" level or the "between group" level evoked expressions of injustice. When personal relationships, group membership, liking or hidden interests other than the individuals' actual performance per se influence the final result made by the supervisor, the appraisals challenge the *bias suppression rule* of justice. This rule states that no

personal self-interests or existing preconceptions should affect the procedures. If liking or some other interpersonal aspect affects appraisals, the rule of *ethicality* also becomes questionable. The procedures used do not follow general values and moral codes. In addition, the rules of *consistency* and *accuracy* are threatened if the supervisors' appraisals are not based on the same criteria for every employee in one unit or between units.

8.1.4   Performance knowledge

One problem with performance measurement was related to supervisors' knowledge of employees' performance. In order to be correct, performance appraisals must be based on valid knowledge. This requires that appraisers both understand and have an opportunity to observe the task and the person under evaluation. This was seen as problematic by the interviewees in both groups. It was argued that supervisors do not have sufficient time, opportunities or experience to carry out appraisals based on a sufficient amount of knowledge. The majority of these sources were seen as being the contextual preconditions, for example organization's structure, that did not fit the pay system's demands (see Table 21).

Table 21. The challenges and sources in the "performance knowledge" category

CHALLENGES IDENTIFIED			Sources		
			Individual(s)	Pay System	Precondition
PERFORMANCE KNOWLEDGE	Both	**Distance between supervisor and employee**		Pay system requires that employee performance can be observed	Organizational structure/working conditions: performance observation is not possible
		Expertise		Pay system requires that supervisors have enough expertise relating to employees' work	Working conditions/type of work: Supervisors do not have enough expertise to evaluate employees' performance
		Experience		Pay system requires that supervisors have enough experience with regard to their employees	Lack of experienced supervisors

Supervisors	**Number of employees**		Pay system requires that employee performance can be observed	Organizational structure: Supervisors have too many employees
Employees	**Supervisors' time management**	Supervisors do not allocate enough time for the appraisals	Pay system requires lots of time	Working conditions: Supervisors do not have time due to other responsibilities

In the following sections, these issues are discussed in more detail. First I will describe employees' experiences and then those of supervisors.

Challenges identified by employees

Employees argued that lack of performance knowledge was due to distance between supervisor and employee, lack of expertise or experience or supervisor's time management.

The distance between supervisor and employee. The distance between the supervisor and the employee was seen as problematic for appraisals based on accurate and sufficient knowledge. Consequently, it was argued that a supervisor knows the work and performance of one employee better than some others. Therefore, evaluations between different employees were considered based on different amounts of either fact or simply impressions depending on how closely the supervisor and an employee work together in everyday life.

> 'Supervisors can't know equally well how people work…some employees work with supervisors on a daily basis, while others see their supervisors very rarely…'

> 'Supervisors interact with employees differently…they cannot know everyone's work.'

It was also argued that when supervisors did not have an opportunity to observe an employee's work closely, some features and behaviors received either too little or too much attention from the supervisor. For example, the supervisor received information about failures, but did not necessarily notice success.

'My supervisor doesn't have a clue what disasters I have managed to avoid here today…[supervisor] doesn't see this everyday chaos…[supervisor] only knows when something goes wrong…'

The source of this challenge was seen as the organizational structure or working conditions that complicated supervisors' gathering of knowledge about employees' performance.

Expertise. In addition, some pointed out that the nature of professional work creates challenges to performance evaluation, because supervisors sometimes do not have enough understanding of the substance in a given field. The employee can also work very autonomously, which also poses a challenge to proper evaluation. This challenge was also considered to be a mismatch between organizational reality and the demands of the pay system. It was argued that this kind of evaluation would be easier in some other type of work.

'Everyone is an expert in his/her field…and also the best one to evaluate the success of the work… supervisors don't always understand or know what I am doing…'

Experience. Employee interviewees also brought up a challenge where a new supervisor had to conduct performance appraisals without proper knowledge of his/her employees and their performance. In addition, many pointed out that if employees were constantly changing working units, accurate appraisals would be more difficult. In order to make accurate appraisals, supervisors had to have some experience about the different tasks and employees in a given working unit. Like before, employees saw that the source of this problem was the discrepancy between an organization's reality and the demands of the pay system.

'A new supervisor had to do these appraisals…so stupid…how could he know what we are doing…'

Time management of the supervisor. It was argued that the lack of knowledge about employees' performance was due to supervisors' lack of time. Many interviewees felt that supervisors do not have enough time to examine and monitor employees' performance as effectively as the appraisals require. Performance appraisals were considered time consuming because the supervisor has to have up-to-date information on their performance. Consequently, gathering knowledge systematically about employees' performance becomes heavily dependent on supervisors' own activity. In this category, supervisors were also considered responsible for their own time management involving appraisals.

> 'Supervisors don't have time to observe employees' work with the required accuracy...they have so many other things to do...this requires time and resources...'

On the other hand, the source of these challenges was seen as the pay system. It was argued that the implementation was time consuming and the whole process (in particular appraisals and discussions) required too much time from the supervisors.

Challenges identified by supervisors

Supervisors also identified the fact that successful performance appraisals required proper knowledge on employees' performance. Supervisors also identified that the challenge related to the number of employees.

Distance between supervisor and employee. Supervisors also admitted that a matrix organization can be a challenge for appraisals. If a supervisor's own employees were "lent" to other units or other projects, a supervisor did not have a chance to follow the employee as closely as those working in his/her own unit. Supervisors felt that it would be better to reflect and talk about their own appraisals with some other party as well, for example their own supervisor or some other supervisor familiar with the appraised employees. However, this was rarely possible.

> 'This is not an easy task. It is impossible to gain a similar level of understanding about every employee's performance. You work more closely with each other. And we have these projects...employees work more closely with certain other supervisors...'

Expertise. Supervisors also noticed that they did not always have the ability to appraise a subordinate's work because they did not know the substance of that work properly. They also felt that the challenge emerged when contextual issues did not fit with the demands of the system.

> 'I felt totally unqualified to evaluate his performance'

Experience. Supervisors described situations where new, recently recruited supervisors had to do appraisals for their new subordinates. Consequently, these supervisors felt that they did not have any abilities to appraise employees' performance. The source of this challenge was seen as a consequence of the mismatch between the requirements of the pay system and organizational conditions.

> 'I had just arrived and I did not know my employees very well. I think it was stupid that I had to conduct the appraisals.'

Number of employees. Supervisors considered that the *number of employees* in the unit had an extensive influence on the level of performance knowledge. If there were too many employees that needed to be appraised, the supervisors felt that it was mission impossible. Equal observation of all employees was simply not feasible. In addition, it was very time consuming. The source of this challenge was seen as contextual issues such as working conditions and unit sizes.

> 'If you have over twenty employees...it is challenging to keep a record of their performance...and think about how much time and effort it takes to conduct appraisals with everyone...and treat them equally in the process...'

Summary of challenges identified by employees and supervisors

In this category, employees and supervisors identified many identical challenges. Both groups concluded that task- or organization-related conditions created challenges for supervisors to gain an understanding about employees' performance. Thus the source of these challenges was seen to be due to the mismatch between requirements of the pay system and existing conditions in the organization.

The distance between supervisor and employee category was related to situations where a supervisor did not work closely with an employee and thus, did not have a chance to observe employee performance on a daily basis. In addition, both groups saw that when an employee was working in some specific professional area, it was challenging for a supervisor to evaluate the performance. It was also seen as problematic when a new supervisor with a lack of knowledge had to carry out appraisals.

Only employees brought up the issue of supervisors' time management. Employees thought that supervisors did not have enough time for time-consuming observation of the performance. Instead, supervisors stated that the number of employees directly influenced their ability to conduct appraisals.

The connection between identified challenges and justice rules

Problems with a lack of knowledge about performance were identified by employees and supervisors. The proposed connection between identified challenges and justice rules are presented in Table 22.

Table 22. A proposed link between procedural challenge and justice rules

PERFORMANCE KNOWLEDGE			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
DISTANCE BETWEEN SUPERVISOR AND EMPLOYEE			
Both	**If the supervisor does not have the opportunity to observe employees' performance due to the physically distance between them:** ➢ Appraisals may be based on impressions, not on accurate information ➢ Supervisor's knowledge of the employees' performance may vary between employees	ACCURACY CONSISTENCY	➢ Pay system ➢ Organizational preconditions
EXPERTISE			
Both	**If the supervisor does not have the expertise to evaluate the performance of an employee:** ➢ Appraisals may not be based on relevant information due to insufficient understanding	ACCURACY	➢ Pay system ➢ Organizational preconditions
	➢ Employees are not in an equal position compared to each other due to the supervisor's expertise	CONSISTENCY	
EXPERIENCE			
Both	**If the supervisor does not have enough experience of their subordinates:** ➢ They may not understand their subordinates' work and performance properly	ACCURACY	➢ Pay system ➢ Organizational preconditions
	➢ Employees may be treated differently (in group or between groups)	CONSISTENCY	
TIME MANAGEMENT			
Employees	**If supervisors do not have enough time to observe employees performance:** ➢ They may not understand employees' performance properly	ACCURACY	➢ Pay system ➢ Organizational preconditions ➢ Supervisors
	➢ Employees in the unit may treated differently compared with other units	CONSISTENCY	
NUMBER OF EMPLOYEES			
Supervisors	**If supervisors have many employees:** ➢ The supervisor does not have time to observe employee performance properly and appraisals may be based on impressions, not facts	ACCURACY	➢ Pay system ➢ Organizational preconditions
	➢ Some employees may get more attention than others	CONSISTENCY	

The challenges with proper performance knowledge jeopardized the rules of consistency and accuracy. If supervisors did not have a chance to observe employees' performance due to distance, expertise or experience, there was a risk that the appraisals were not based on *accurate* information. In addition, it was possible that supervisors did not have the same amount of knowledge on every employee's performance. This made the rule of *consistency* challenged. Consistency and accuracy rules were also questioned when employees argued that supervisors did not have enough time to observe their employees' performance properly. On the other hand, supervisors emphasized the number of employees that complicated the accurate and consistency of appraisals between different employees.

8.1.5   Decision-making process

In this category, challenges were related to the general arguments involving the lack of clarity in decision-making, and the implementation of the pay system. Only supervisors raised issues related to this category.

Challenges identified by supervisors

Unclear rules and lack of knowledge about the decision-making process.Supervisors argued that the general decision-making process involving the implementation of the pay system was unclear. The source of this challenge was considered to be the pay system administration, which failed to provide sufficient information and instructions about the pay system (see Table 23).

Table 23. The challenges and sources of the "decision-making process" category

CHALLENGES IDENTIFIED			Sources of the challenges
			Pay system administration
Decision-making process	**Supervisors**	**Unclear rules and lack of knowledge about the decision-making process**	Pay system administration does not provide enough instructions for decision-making to ensure the consistent use of the system between units

Supervisors' arguments were related to general issues about the pay system and its use in an organization, in particular with regard to its transparency. Supervisors felt that they did not have enough knowledge regarding how other units implemented appraisals. Supervisors hoped for more information about the range of different practices used in the appraisals. For example, how much time was spent on each discussion, how the results of the appraisals were given to the employees, who should keep record ofthe

performance throughout the year, etc. Although supervisors used some procedures in their own unit, they were not sure that this was the common procedure in all units. Supervisors hoped for a better framework for appraisals as well as benchmarking possibilities with other units to identify the best possible way to implement appraisals. The source of this problem was seen as being the pay system administration, which was supposed to be responsible for information given from the pay system.

'I am not sure how other supervisors conduct appraisals. It would be nice to have more information about this, and good practices and experiences. Some kind of summary of the variety could be created by HR…to which one could compare his own way of conducting appraisals.'

The connection between identified challenges and justice rules

When comparing the category of unclear decision-making to justice rules in the literature, it can be argued that the rules of consistency and accuracy became challenged (See Table 24).

Table 24. A proposed link between procedural challenges identified and justice rules.

DECISION-MAKING PROCESS			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule(s)	The source(s) of the challenge
UNCLEAR ROLES AND RULES IN THE DECISION-MAKING PROCESS			
Supervisors	**If the roles and rules in the decision-making process are unclear:** ➢ The decisions are made differently between different units and the consistent use of the system is jeopardized and as a consequence, the employees are not treated consistently ➢ The accuracy of decisions made by different supervisors is questioned	CONSISTENCY --------- ACCURACY	➢ Pay system administration

If supervisors do not have clear rules and principles about implementation issues, the pay system and performance appraisals can be used differently depending on the supervisor. Consequently, this implies that employees

from different units are not treated in a similar fashion, and again, the rule of consistency is challenged. In addition, the accuracy of decisions made by different supervisors is questionable.

8.2 Core category II: Linking pay to performance

In the second core category, the challenge of the appraisals and merit pay was focused on budget issues. Employees and supervisors saw that the small pay budget and its strict connection to the appraisals complicated the implementation of the pay system. Although all challenges seemed to have something to do with a lack of financial resources, supervisors and employees emphasized this challenge a bit differently. In the next chapter, the challenges identified by employees and supervisors are discussed in more detail (see Table 25).

Table 25. Core category II: Linking pay to performance

Linking pay to performance E= 23 % of total S= 19 % of total	Challenges identified by employees	% N=461	Challenges identified by supervisors	% N=356
	DISTORTED LINK BETWEEN APPRAISALS AND PAY			
	➢ Limited pay budget and points (59) ➢ Restrictive instructions (24) ➢ Calibration of the appraisal results (21)	23 %	➢ Limited pay budget and points (65)	19 %

8.2.1 Distorted link between appraisals and pay

All expressions in this category described challenges that somehow challenged linking pay to performance. In general, both groups saw that the lack of a proper pay budget challenged the pay system and appraisals implementation. Supervisors discussed mainly one issue and its consequences with regard to the supervisory work: the pay budget and its connection to the performance appraisals scoring. Employees discussed more widely about pay budget issues emphasizing more the visible consequences of the lack of financial resources.

The source of this challenge was mainly seen as being the financing of the pay system, in other words, the precondition of the system. In addition, the structure of the pay system was also seen as problematic in the condition of the low pay budget. In particularly, the direct link between performance

appraisal points and pay outcome was impossible to maintain under the conditions of an insufficient pay budget. The pay system administration was also blamed, because they gave instructions that restricted the conducting of the appraisals. Sources of these challenges are presented in Table 26.

Table 26. The challenges and sources of the "distorted link between appraisals and pay" category

CHALLENGES IDENTIFIED			Sources		
			Pay system	Pay system administration	Precondition
DISTORTED LINK BETWEEN APPRAISALS AND PAY	Employees	**Limited pay budget and points**	Direct link between appraisal result and points		Insufficient finance of the system
		Restrictive Instructions	Direct link between appraisal result and points	Instructions provided by the pay system administration	Insufficient finance of the system
		Calibration of the appraisal results	Direct link between appraisal result and points	Calibration made by the pay system administration	Insufficient finance of the system
	Supervisors	**Limited pay budget and points**	Direct link between appraisal result and points		Insufficient finance of the system

Challenges identified by employees

Employees identified several issues when describing the challenges involving the link between appraisals and pay outcomes. These were related to limited pay budget, the structure of the pay system and actions of the pay system administration.

Limited pay budget and points. In this category, employees described challenges that the limited pay budget created in terms of the appraisals. The main argument was that the pay system could not be implemented according to its principles because of the lack of financial resources. This meant that the appraisal points (and consequently pay) could not respond to the actual changes in performance because supervisors did not have the money to fund pay rises. Accordingly, there were few or no changes in annual appraisals regardless of the actual performance of an individual. Employees saw that the lack of money in implementing the pay system

made the system meaningless and led to frustration, anger and apathy among employees.

'In practice there are no opportunities to make many changes to the appraisal levels…we can fill in the forms, that is not the problem but they won't influence our pay…in that sense the initial principles of the system are not actualized.'

Restrictive instructions. This category was very similar to the previous category, although the focus was on instructions that interviewees saw as a consequence of a small pay budget. According to the interviewees, supervisors were advised to reach a mean value set in advance of the appraisals at the unit level in order to control the pay budget available. This forced supervisors to make individual appraisals based on the mean for the whole unit, which implies that not everybody can be a good performer. In addition, there were restrictions on the use of the highest points of the appraisal scale. Many thought that these guidelines created a system where the framework of the pay system determined the results of the individual appraisals, not the actual performance. Employees saw that challenges were due to the mismatch between the pay system and the financing of the pay system. Dissatisfaction was also targeted at the pay system administration because it was responsible for formulating the instructions.

'This is not right, there could be actual differences at the unit level…this forces supervisors to calculate the points according to some average… this means that if somebody wins, someone else loses…'

'If there are too many 5s or 4s in a unit, they will get back to supervisor…'

Consequently, this diluted the link between real performance and pay. In addition, many argued that it was not motivating if the framework of the pay system made it very difficult to be an excellent performer, i.e. it wasn't possible to score high points.

Calibration of the results. This category referred to the consequences of the challenges discussed above. Despite the instructions for the appraisals, some units received different appraisal results compared with other units. This was discovered when the pay system administration pulled together the appraisals from all the different units and compared them. If one unit differed radically from other units in its mean appraisal result, it was possible for its appraisals to be mathematically calibrated downwards at a later stage. This was done in order to manage the pay budget but also the consistent use of the appraisal scale between units.

The goal of the scaling was seen as contradictory; seeking for consistent and just evaluations using calibration decreases the possibility of detecting real differences in performance between individuals or working units. However, at the same time it tried to prevent biased or groundless appraisal results between units. However, many argued that this should not be done artificially because it vitiated the whole meaning of appraisals. Use of the same scale by different supervisors should be achieved through training and shared understanding of the scale, not through artificial calibration of the results.

'What is the point in appraisals if the results are scaled to some level set at an earlier date?'

Reaching for the "normal curve" in the appraisals at the organizational level was seen as disturbing and distorted. The problem of commensurability was related to a broader discussion about the possibility of objective appraisals per se. Many saw that appraisals were inevitably based on supervisors' subjective perceptions, which created a problem of commensurability at the organizational level. Although the commensurability of the appraisals at the organizational level should be directed and ensured in some way, the artificial calibration of results was not considered the right one.

One important finding was related to this "distorted link between appraisals and pay" category as a whole. Many employee interviewees described many personal feelings that the challenges discussed above invoked. They felt underestimated when asked to take performance appraisals that led to nothing or at best to minimum salary increases seriously. Many described the discussions as frustrating, humiliating or awkward because they saw that it was a compulsory "play" that they and their supervisors were forced to go through.

'You know before you even go to the discussion that nothing is going to change…due to the lack of money. But still the appraisals are supposed to be carried out. Why? Just to follow some formal rules? I think it is ridiculous. We are treated like children here.'

Challenges identified by supervisors

Supervisors identified the same challenges related to the pay budget as employees did. However, whilst employees described mainly how a limited pay budget and its connection to the performance points diluted the link between pay and performance, supervisors talked more about the challenges that the lack of money created in their appraisal duties.

Limited pay budget and points. When points were connected strictly to money, money started to direct the appraisal process and the distribution of performance points more than performance. Supervisors described these "boundary conditions" from the supervisor perspective, i.e. the lack of opportunity to influence employees' pay.

Supervisors felt that they were "between a rock and a hard place" because they were the ones who had to find a balance between the reality of the pay system (pay budget which determines the amount of points) and the expectations of employees (pay rises). Many interviewees pointed out that they would like to reward good performance, but within the current pay system there was absolutely no possibility to do so. They felt that they had responsibility for appraisals but no power to act accordingly.

Supervisors felt that these challenges made the appraisal and discussion about employee performance very complicated. It was difficult to justify performance appraisals when an employee earned higher points according to his/her performance than the budget limits allowed. In addition, some supervisors suggested that performance appraisals would be more useful if there was no strict connection between performance appraisal and pay. At least then justification and truthful feedback would be easier to give.

'I would separate the pay issues from this. I would like to give feedback without considering one's pay. The pay system is so inflexible that it does not allow much space to make changes. It is difficult to say that yes...you have been great but unfortunately there is no way I can change your performance points. I always have to explain why this won't go by the book.'

As with employees, supervisors also complained that the tight budget decreased the effectiveness of merit pay and made the appraisal situation very hard for them. Supervisors described situations where some employees refused to fill in the performance appraisal sheet or overestimated themselves intentionally because "appraisal have no consequences".

'They do not take it seriously. It is a funny game for them.'

Summary of challenges identified by employees and supervisors

As can be seen in the challenges identified by supervisors and employees, both groups identified the same problems but the focus varied somewhat. Supervisors described how the limited pay budget made the appraisals difficult to conduct. They emphasized that the lack of money created boundaries for truthful appraisals and consequently for pay increases.

Supervisors felt that they did not have enough power to influence these issues because "boundary issues" dominated the use of the system. This was referred to as a "zero sum game" or "the tail wagging the dog". In addition, the limited pay budget and its connection to the performance points complicated the justification of appraisals.

Employees defined challenges more widely in this category than supervisors. Although they understood that money was one essential problem of appraisals, they emphasized the visible actions that the limited pay budget (and its connections to the points) caused more than supervisors. These were restrictive instructions concerning the use of the appraisal scale and the subsequent calibration of appraisal results. Employees felt that these challenges vitiated the whole pay system and ridiculed the employees under such a system.

The connection between identified challenges and justice rules

When comparing the arguments relating to the category "linking pay to performance" and justice rules, the rules of accuracy, and ethicality become salient. These connections are presented in Table 27.

Table 27. A proposed link between identified challenges and justice rules

DISTORTED LINK BETWEEN APPRAISALS AND PAY			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
LIMITED PAY BUDGET/BUDGET AND POINTS			
Both employees and supervisors	**If the pay budget is limited and strictly connected to available performance appraisal points:** ➢ The supervisors' appraisals may be directed by amount of points available, not by the actual performance of an individual	ACCURACY	➢ Pay system ➢ Preconditions: finance of the pay system
	➢ The pay system is no longer based on the original idea but on cheating	ETHICALITY	
Employees	➢ Employees may feel that they are ridiculed by an appraisal system which does not keep its promises	INTER-PERSONAL JUSTICE	
RESTRICTIVE INSTRUCTIONS			
Employees	**If appraisals are based on instructions set in advance:** ➢ Appraisals are dominated by these instructions, not the actual performance of an individual	ACCURACY	➢ Pay system ➢ Preconditions: finance of the pay system ➢ Pay system administration
	➢ Employees may feel that they are ridiculed by an appraisal system which does not keep its promises	INTER-PERSONAL JUSTICE	
CALIBRATION OF THE APPRAISAL RESULTS			
Employees	**If appraisal results are subsequently scaled in order to achieve commensurability of results on the organizational level and manage pay budget:** ➢ Appraisals may no longer be based on real differences in performance	ACCURACY	➢ Pay system ➢ Preconditions: finance of the pay system ➢ Pay system administration
	➢ Employees may feel that they are ridiculed by an appraisal system which does not keep its promises	INTER-PERSONAL JUSTICE	
	➢ Scaling may vitiate the basis of the appraisals and pay system	ETHICALITY	

If the financing of the pay system (and consequently instructions or calibration actions) starts to control the actual performance appraisal process, the appraisals are no longer based on *accurate* performance knowledge, but on the available pay budget. This questions the basic idea behind the appraisal system and thus the rule of *ethicality* became challenged. In addition, the distorted system may evoke feelings of disrespect and being undervalued among employees who are still instructed to take the system seriously. This violated the rule of *interpersonal justice*.

8.3 Core category III: Performance appraisal interview

In the third core category, the challenges were related to the performance appraisal interview, i.e. the situation in which employees' performance is discussed and evaluated. In general, all identified challenges in this category were somehow related to interaction between individuals. Both the supervisor and the employee bring their personal styles, motives and interactional skills to the interview, and these personal differences were considered to create challenges for the appraisal interview (see Table 28). Next, the subcategories of the performance appraisal interview are discussed in more detail with respect to challenges identified by employees and supervisors.

Table 28. Core category III: Performance appraisal interview

	Challenges identified by employees	% N=461	Challenges identified by supervisors	% N=356
Performance appraisal interview E=43 % of total S= 28 % of total	**PERSONAL DIFFERENCES AND INTERACTION**			
	➢ Interactional skills of the employees (57) ➢ Will and ability of the supervisor to conduct appraisals (46) ➢ Dialogue (voice) (34)	30 %	➢ Differences in interaction (24)	7%
	FEEDBACK AND JUSTIFICATION			
	➢ Amount and quality of feedback (20) ➢ Money, points and feedback (39)	13 %	➢ Difficult feedback (28) ➢ Money, points and feedback (38) ➢ Amount of feedback (9)	21%

8.3.1 Personal differences and interaction

Employees and supervisors identified many challenges related to the performance appraisal interview, particularly on interaction in it (see Table 29). They were concerned how different styles of employees might affect the appraisal results, how supervisors might have different skills to do appraisals, how successful the dialogue between a supervisor and an employee is and how feedback about appraisals is given. The sources of these challenges were targeted primarily at individuals participating in the performance appraisal interview. In addition, the pay system itself and the lack of training provided by the pay system administration were blamed.

Table 29. The challenges and sources of the "personal differences and interaction" category

CHALLENGES IDENTIFIED			Sources		
			Individual(s)	Pay System	Pay system administration
PERSONAL DIFFERENCES AND INTERACTION	Employees	**Interactional skills of the employee**	Individuals differ in their skills in performance appraisal interview	Pay system and appraisals require sufficient interactional skills	Sufficient training should be provided by the pay system administration
		Will and ability of the supervisor to conduct appraisals	Supervisors have different skills and will to conduct performance appraisal interview	Pay system and appraisals require sufficient skills and motivation from the supervisors	Sufficient training should be provided by pay system administration
		Dialogue (voice)	Individual differences influence the success of the dialogue in the appraisal interview	Pay system and appraisals require sufficient interactional skills	Sufficient training should be provided by pay system administration
	Supervisors	**Differences in interaction**	Individual differences influence the interaction in the appraisal interview	Pay system and appraisals require sufficient interactional skills	Sufficient training should be provided by pay system administration

Challenges identified by employees

Employees identified that interactional skills of the employees, will and ability of the supervisors to conduct appraisals and dialogue between employee and supervisors created challenges for fair performance appraisal interview. Next these aspects are described more closely.

Interactional skills of the employee. In the first category, employees were concerned about the influence of different employees' styles in the performance appraisal interview. Employees act and present themselves in performance appraisal interviews in different ways. The challenges identified by employee interviewees related to the argument that employees with different personal styles and motives could or try to influence the appraisal interview and the final appraisal result (and therefore pay decisions) made by the supervisor.

In particular, two different employee styles and underlying motives were distinguished by interviewees. Accordingly, employees can adopt either a passive or an active style in the performance appraisal interview. The passive style mentioned by the interviewees was one of modesty: some people do not bring out their skills and achievements in a strong manner. They usually do not like to highlight their achievements and hope that their good performance will be recognized by the supervisor in some other way. These people hide their light under a bushel. Modesty is characteristic of both the working style and the verbal style of such an individual. It was considered to be due to their personal styles and motives.

'We have employees here that are excellent workers but don't highlight their achievements at all...I'm not sure if supervisors notice them as easily as those louder, more visible employees'

Many interviewees pointed out that the performance appraisal situation required self-expressions and employees vary in this aspect. Interviewees explained that modest employees were considered to be more willing to accept the appraisal result suggested by a supervisor and to be more reluctant to present opposing viewpoints or additional information in the dialogue. They were less willing to defend themselves. This category included arguments that some employees may even downplay their achievements in the interview dialogue. This modest personal style was seen to influence the dynamics of the interview and possibly the final result.

'Some employees just don't have the skills for this...appraisal... they may even downplay their achievements and especially can't defend themselves when it should be necessary...'

Opposite the passive style in the performance appraisal interview was the active style. The interviewees mentioned the use of defending and persuasive styles in the performance appraisal interview. These styles were in contrast to the passive styles and were related to the willingness of employees to defend their viewpoints in the performance appraisal interview. These employees were seen as more aggressive and were determined to defend their opinions or even persuade supervisors to give them certain performance appraisal results. They also argued openly with their supervisor when the suggested outcome of the appraisals did not satisfy them.

'Some employees are more aggressive and use excuses and whatever to convince the supervisor of their excellence.'

Terms such as gambling and negotiation were used when the interviewees described the employees' styles and motives in this category. From this perspective, the performance appraisal was another negotiation situation that was motivated mainly by the self-interest of both parties. Thus, the employee's goal was to influence and manipulate dialogue in order to achieve the desired outcome. It was argued that some employees were more skilled in negotiation and persuasion tactics. This allowed them to have a different impact on the performance appraisal situation, and consequently perhaps, on the outcome of the appraisal.

In sum, it was argued that these differences in passive or active styles were due to the overall personality and self-concept of the person. This could, for example, lead employees to overestimate or underestimate themselves. In the appraisal situation, these beliefs are tested against the supervisor's view. If these two views are in conflict, the person may react very differently, i.e. defensively or passively. Employee interviewees argued that these differences could influence the final appraisal result, in other words, the amount of merit pay. The source of this challenge was considered to be individuals and their actions that challenged the goal of neutral appraisals. This goal was seen as unrealistic and thus, also pay system itself was blamed. In addition, the source of the challenge was also seen as being the pay system administration, which was seen as being responsible for providing sufficient appraisal interview training.

Will and ability of the supervisor to conduct appraisals. In this category, employees discussed the skills of the supervisors in general with respect to the implementation of performance appraisal interviews. According to employee interviewees, supervisors had different levels of will and skills in implementing and using appraisals as a management tool. Some supervisors were said to have more interactional skills and were more interested in the pay system than others; some even had a negative attitude towards it. It was argued that this distaste or lack of engagement could be due to the important role that supervisors have in the pay system context. This role required good leadership skills, because supervisors were responsible for giving feedback, setting goals and explaining and justifying pay decisions.

Supervisors were said to differ in their abilities to respond to these role requirements, particularly in terms of the requirements related to interaction. This was considered a threat to equal implementation of appraisals because the success of appraisals was considered to be heavily

dependent on the activity and skills of the supervisor. Because merit pay gave lots of power to supervisors, it was felt that it was unfair that some supervisors seemed to be more skillful or engaged in using the system. Although the primarily source of experiences of injustice were seen as being supervisors, it was also highlighted that the pay system itself required skillful supervisors to give appraisals. The sufficient training for supervisors was seen as a responsibility of the pay system administration.

'This is very demanding for supervisors…some are inherently better at this. It requires good interactional skills…the sensibility to handle different kinds of employees. To be open to their concerns. I think.'

'More training should be provided about these "softer side" issues." Some basic levels of leadership skills must be required from supervisors conducting these interviews"'

Dialogue. The quality of dialogue between a supervisor and an employee seemed to be connected to a successful appraisal interview. It was also supported by the guidelines of the pay system, which recommended that both parties prepare themselves for the interviews by completing the employee's performance appraisal form in advance. This completed form was supposed to be a basis for discussion in the interview.

Challenges were related to situations where one or the other party, in this case the supervisor, dominated the interaction and did not allow the employee to express his/her point of view. The chance to express one's feelings or opinions about things under evaluation seemed to be very important to employees. Many emphasized that the appraisal interviews should be a place for the mutual exchange of opinions and interaction. This required sensitivity from both the supervisor and the employee to the other party's interactional styles, i.e. the ability to adapt oneself to the interaction situation. For example, some employees needed more encouragement for an open discussion of their performance. Thus, appraisals should allow both parties to express their opinions and when disagreements occur, it should be possible to resolve them through discussion.

'They didn't feel that the performance appraisal was based on dialogue…it just happened to them…they did not have a chance to express their own view on issue.'

'it was not interaction…[the supervisor] talked and I listened…'

A lack of dialogue made the appraisals seem more like criticism than evaluation. Dialogue seemed to represent two aims; on the other hand it

was a way to influence or correct the opinions of the supervisor (concerning the performance of the employee), while on the other hand the existence of voice in the appraisal situation reflects the feeling of respect and dignity; one is heard, respected and his/her opinions are important. Although sources of these challenges were mainly seen as being the individual differences, the role of sufficient training and instructions were also brought up.

Challenges identified by supervisors

There was much less discussion among supervisors about the challenges related to the appraisal interview than employees did. Supervisors broadly referred to issues that somehow describe the overall "atmosphere" in the appraisal interview which they considered to affect the success of the performance appraisal interview in general.

Differences in interaction. The thing that supervisors mainly noticed was that the atmosphere in the interview varied according to the different employees. Some employees were more open and easy to talk to. On the other hand, some of were more remote and the experience of the appraisal discussion was uncomfortable. Supervisors saw that this variation in interaction between different supervisor-employee dyads was dependent on personal issues. Due to these issues, it required less effort to create profound discussion with some employees than others.

Supervisors have also noticed that employees' interest in the appraisal interview varied. Some employees were more prepared for discussion than others. Supervisors felt that it was challenging to have an interview with an employee who was not interested at all in the subject. As a result, supervisors felt that employees should also receive sufficient training for participating in performance appraisal interviews.

> *'I think that employees are also responsible for a successful appraisal discussion... it cannot only be the supervisor's duty. In that sense we all need training on these issues.'*

Supervisors felt that it was their main responsibility to try to ensure that every employee felt comfortable in the interview. Supervisors described the good interview as "open, respectful, and honest". Thus, the challenge from the supervisors' perspective was to provide equal opportunities in the interviews to every employee, despite their personal relationships or styles. This required supervisors to be very sensitive to employee differences to ensure success in every single appraisal interview.

'As a supervisor you have to face all those different people coming to the interviews...it is not easy and requires adaptation.'

Summary of challenges identified by employees and supervisors

Both employees and supervisors recognized that the performance appraisal interview was affected by the dynamics that individual differences create. However, arguments involving this category were more represented in employee than supervisor interviews. Employees were afraid of how these individual differences, in particularly employees' impression management skills, can distort appraisal outcomes. In addition, employees were fearful that leadership skills and appraisals administered by different supervisors may vary. This meant that the quality of the appraisals was seen to be heavily influenced by the supervisor of each unit.

Supervisors' arguments were more general in this category. On a general level they described the challenges of interactional issues, such as atmosphere, of the appraisals. Supervisors were mainly concerned about how they, as a supervisor, could ensure the equal treatment of different individuals and personalities. In particular, they were concerned about how to handle difficult situations in a way that everybody was provided with a fair and decent interview.

When employees were talking about how individual differences and supervisory skills affect the final outcome (on the appraisal result and through that on the pay outcome), supervisors talked more about differences that affect the smooth interaction in the appraisal situation. Therefore it seems that employees were more focused on appraisal outcomes, whereas supervisors were more concerned about the appraisal process. In addition, employees described more widely the possible challenges related to personal issues in performance appraisal interviews, while supervisors referred more to the general interaction of the appraisal. All challenges in this category were seen to originate from individual differences that challenged the basic assumptions of the pay system (in other words neutral, equal appraisals). Respondents also stated that they hoped the pay system administration could provide sufficient training for everyone.

The connection between identified challenges and justice rules

The categories described above address employees and supervisors' perceptions of actual or possible challenges of the performance appraisal interview. Employees' arguments were related to challenges that were seen as a consequence of the personal or style differences and the quality of the interaction between the subordinate and the supervisor. Instead, supervisors described the challenges of interaction at a more general level. Suggestions and justifications of a connection between the procedural challenges identified and the justice rules in the literature are presented in Table 30. Next these connections are discussed in more detail.

Table 30. A proposed link between procedural challenge and justice rules

PERSONAL DIFFERENCES AND INTERACTION			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
INTERACTIONAL SKILLS OF THE EMPLOYEE			
Employees	**If personal styles and interactional skills of the employee affect the decisions made by the supervisor:** ➢ Equality may not exist between employees	CONSISTENCY	➢ Individuals ➢ Pay system ➢ Pay system administration
	➢ Appraisals may be based on impressions, not on accurate information about performance	ACCURACY	
WILL AND ABILITY OF THE SUPERVISOR TO CONDUCT APPRAISALS			
Employees	**If supervisors have varying degrees of skills and will in using the pay system and appraisals:** ➢ There could be differences in the commitment and use of the appraisal between supervisors	CONSISTENCY ACCURACY	➢ Individuals ➢ Pay system ➢ Pay system administration
(CONTINUED)			

PERSONAL DIFFERENCES AND INTERACTION (CONTINUED)			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
DIALOGUE			
Employees	**If the quality of the dialogue between supervisor and employee is poor in the performance appraisal interview** ➤ The employee may not have an opportunity to present his/her own opinions	REPRESENTA-TIVENESS	➤ Individuals ➤ Pay system ➤ Pay system administration
	➤ important viewpoints may not be taken into account by the supervisor	ACCURACY	
	➤ The employee has fewer opportunities to correct supervisor's views	CORRECTA-BILITY	
	➤ This may enhance experiences of lower status and disrespect if the interview is dominated by the supervisor	INTER-PERSONAL JUSTICE	
	➤ Interaction may vary between different employee-supervisor dyads	CONSISTENCY	
DIFFERENCES IN INTERACTION			
Supervisors	**If interaction varies in the appraisal interview due to personal differences:** ➤ The quality of appraisals varies between different supervisor-employee dyad	CONSISTENCY ACCURACY	➤ Individuals ➤ Pay system ➤ Pay system administration

The first subcategory was related to personal differences and impression management skills in the actual appraisal situation. It was argued that employees with different personalities and styles could influence the supervisor and affect the outcome of the appraisal situation. When comparing these challenges with the rules of justice, the rules of *consistency* and *accuracy* become jeopardized. If consistency between individuals requires that no person has a special advantage, personal styles and motives can violate this rule. For example, a person with strong communication skills and aggressive tactics can more effectively defend his/her points of view.

In addition, if subordinates present themselves differently in the appraisal situation and provide differently information to the supervisor, the appraisals may not be based on accurate or an equal amount of information between employees. If the supervisor does not have sufficient information about the subordinate's performance, the subordinate's opinion and views about his/her own performance are important. The supervisor can compare his/her own views with those of the subordinate in order to establish a

shared understanding of the subordinate's performance level. This also requires proper justification of opinions and views by both parties. If the subordinate is too shy or passive to present information to the supervisor or correct information, there is a risk that inaccurate appraisals based on errors or insufficient information will result.

The second subcategory was related to the will and ability of supervisors to conduct appraisals. Like subordinates, supervisors have different skills and motivations that were considered to influence the appraisal situation. If supervisors have a different level of willingness and set of skills in implementing and using appraisals as a management tool, this threatens the fair conduct of appraisals. The *consistency* and *accuracy rules* are questionable if the use of appraisals differs between supervisors.

The next subcategory was related to the dialogue. The chance to express one's feelings or opinions about things under evaluation seems to be very important to subordinates. The existence of dialogue or "voice" seemed to represent two aims: on one hand it was a way to influence or correct the opinions of the supervisor (concerning the performance of the subordinate), while on the other hand the existence of dialogue in the appraisal situation reflects a feeling of respect and dignity; one is heard, respected and his/her opinions are important. Thus these concerns seem to reflect the four justice rules from the literature. Firstly, *interpersonal justice* that reflects propriety and respectfulness of the procedures, secondly the rule of *representativeness* that states that procedures must take account for the basic concerns, attitudes and values of individuals, and thirdly the *correctability rule* that emphasizes an opportunity for grievances and appeals and also an opportunity to change or reverse decisions. Even if every employee in practice has the same opportunity to present their views in the appraisal interview, the quality of the dialogue seemed to either promote or prevent a willingness to express one's ideas. Finally, if appraisals differ in terms of interaction, the rule of *consistency* between different employees was challenged.

Supervisors also discussed the quality of interaction in the appraisals. However, they described it at a more general level. If the quality of the appraisals varied between different supervisor-employee dyads, it was seen to jeopardize the rules of consistency and accuracy.

8.3.2 Feedback and justification

In addition to interactional challenges described earlier, feedback and justification issues were also highlighted by employees and supervisors. Both groups defined situations where they have faced challenges with giving or receiving feedback. The sources of these challenges were targeted primarily at individuals and their properties that that were at odds with assumptions about the pay system. In addition, the pay system administration was seen as being responsible for providing sufficient training on these issues. Both groups emphasized one important issue that was seen to challenge giving feedback in the performance appraisal interview: financing of the pay system, or in other words, a limited pay budget. The challenges and their sources are described in Table 31 and discussed below.

Table 31. The challenges and sources of the "feedback and justification" category

CHALLENGES IDENTIFIED			Sources			
			Individual(s)	Pay System	Pay system administration	Precondition
FEEDBACK AND JUSTIFICATION	Employees	**Amount and quality of feedback**	Supervisors have different skills in giving feedback	Requirements of the pay system: sufficient interactional skills	Lack of training provided by pay system administration	
		Money, points and feedback				Pay budget: dominates the giving of feedback
	Supervisors	**Difficult situations**	Individuals accept feedback in different ways	Requirements of the pay system: sufficient interactional skills	Lack of training provided by pay system administration	
		Money, points and feedback				Pay budget: dominates the giving of feedback
		Amount of feedback	Supervisors should give more feedback			

Challenges identified by employees

Members of the organization should know how they are performing and in a merit pay context, supervisors usually give that feedback. However, employees noticed that this task was not easy and assumed that some supervisors sometimes avoid it and experience anxiety and discomfort as a result.

Amount and quality of feedback. In this category, employees discussed the amount and content of feedback that they had received during the performance appraisal interview. Accordingly, successful interaction in the appraisal situation involved proper discussion (i.e. feedback or justification) of the person's performance. Employees considered feedback particularly important when there were disagreements about performance appraisal levels, i.e. points. A lack of justification was interpreted as a problem because it was seen as the central outcome and benefit of the appraisals: to know how to improve one's performance, what level is good enough, how to do things better, etc. Without proper feedback and justification employees did not know whether their performance achieved the goals set. In addition, they were not provided with any tools to improve their performance. As a result, they did not know how to influence their performance-based pay.

> 'And then [supervisor] said...what if we just put you at this level (on the appraisal scale)...and did not justify why...I did not agree, but what can you do..?'

> 'The supervisor has to justify the results and give feedback on how to improve performance...especially if the employee disagrees with the result...'

> 'I saw my pay check that my performance-based pay has increased... I have no idea why.'

When performance was discussed, employees were also concerned about how the supervisors gave feedback. Constructive and justified feedback was more likely to be interpreted as fair and legitimate, while unconstructive (without justification, rude, etc.) was interpreted as critical and demeaning.

> '[Supervisor] just said, your performance is on this level... I felt like I was at school again... a little bit demeaning.'

Hence, respectful and sensible behavior was closely related to the feedback given. Employees were not only concerned about what feedback they received but also about how it was given. In addition, employees demanded honest feedback: if poor appraisals were for example influenced by the low pay budget, they wanted to hear that.

Money, points and feedback. An interesting connection between feedback arguments and limited pay budget arguments (in the core category of "Distorted link between appraisal and pay") was found when co-occurring codes were explored. Limited pay budget was also emphasized when the feedback issues were discussed. According to the results, limited pay budget was one reason for insufficient feedback on performance. When the pay budget was low, it directly influenced the amount of points that a supervisor could distribute. At worst, supervisors did not have a chance to increase employees' performance appraisals points – even if their performance had improved. In these situations, discussions about and evaluation of performance were seen as pointless and frustrating because they have no consequences on a performance appraisal result, and therefore on pay. This created an artificial system, which blurred the link between pay and performance – the main idea of merit pay. Some interviewees suggested that discussions relating to performance would be more meaningful without its connection to pay.

'The performance feedback is usually related to the lack of money...it dominates the whole discussion – not to have money to raise your points.'

Challenges identified by supervisors

Supervisor interviewees also referred specifically to challenges related to feedback and justification when discussing challenges in the performance appraisal interview. Supervisors described difficult situations and the difficulty of giving feedback due to employees' personal differences.

Difficult feedback. Supervisors noted that employees differ according to their conception about their own work. Some employees systematically overestimated and some underestimated their performance. Thus, the difficulty of feedback and justification was considered to be influenced by employees who can react very differently to feedback due to their personalities.

Some employees were considered too passive, even when a supervisor tried to ask for their opinion about the appraisal. In this situation the supervisor did not know whether the employee approved or disapproved of the feedback.

'It is challenging when some employees never say anything. They just sit there silently... no arguments about anything. You never know what they really think.'

In contrast, it was even more difficult when supervisors felt that an employee had unrealistic thoughts about one's performance. Feedback giving in this situation required good interpersonal skills and a "psychological eye" from the supervisors. Supervisors emphasized that employees' feelings could easily be bruised because one's performance is considered to be a very personal issue. This required sensitivity from supervisors to adjust their feedback according to different employees. Due to this, performance appraisals were sometimes considered quite a stressful event for supervisors.

> 'It is difficult if someone has the totally wrong perception about their own performance. You have to be really sensitive when explaining why the performance is not at the same level he/she thinks. It is easily interpreted as a personal insult. These situations can be quite stressful.'

Supervisors also described difficult situations, where an appraisal interview has resulted in conflict. In these situations, an employee and a supervisor had totally different views on an employee's performance. In the worst case, one supervisor described performance appraisal interviews in which employees had totally lost their nerve and the interviews had resulted in discussions about inappropriate personal issues.

> 'She nearly yelled at me that I was the wrong person to evaluate her job and it's my fault that her job is not appreciated by her colleagues...She was so agitated that we had to terminate the discussion...I felt terrible'

> 'He did not accept any of my explanations...we talked about this for long time...I really tried to explain my point of view but we totally disagree about this issue...the issue was left unresolved and I felt I have failed as a supervisor.'

Money, points and feedback. Supervisors also discussed the role of money, points and feedback. As noted in the employees section, the lack of financial resources to implement appraisals also caused problems in giving feedback about employees' performance. Supervisors said it was frustrating to go through appraisals with employees when real changes to the performance appraisal document could not be made due to the lack of money. As a consequence, performance appraisals were conducted quickly and justifications were related to the pay budget rather than performance issues.

> 'This paper [performance appraisal document] has lost its meaning. I think people won't get into it because it rarely has consequences for anything. No money, no point in doing appraisals.'

Amount of feedback. Finally, some supervisors also brought up the amount of feedback. In these arguments they were reflecting on their own behavior and concluded in general that they should give more performance-related feedback to their subordinates.

'I think I should give more feedback, employees appreciate it.'

Summary of challenges identified by employees and supervisors

Both groups identified challenges involving the giving of feedback. In particular, employees were concerned about the amount of feedback and how feedback should be given. They wanted to have feedback in order to improve their future performance. Although supervisors noted this challenge, they did not emphasize it as much as employees. Instead, they referred much more to difficult situations that they have faced when giving feedback to their employees. Supervisors emphasized how they have to manage different kinds of employees with different self-concepts and hopes and how this creates challenges to their supervisory work to maintain decent appraisals with everyone. Finally, both groups agreed that budget issues influence the appraisal interview and in particular, feedback about performance. In particular, employees emphasized that when budget issues started to influence the feedback provided, they felt disrespected by the system.

The connection between identified challenges and justice rules

When comparing challenges identified with justice rules, three rules became violated: consistency, informational and interpersonal justice rules (see Table 32). Next, these justice rules violations are described.

Table 32. A proposed link between procedural challenge and justice rules

FEEDBACK AND JUSTIFICATION			
Procedural challenge identified	A proposed link between procedural challenge and justice rule(s) identified in the literature	Justice rule	The source of the challenge
MONEY, POINTS AND FEEDBACK			
Both	**If the pay budget is limited and strictly connected to available performance appraisals points:** ➤ Feedback about performance is difficult to justify	INFOR-MATIONAL JUSTICE	➤ Finance of the pay system
Employees	➤ The pay system and appraisals may be perceived as humiliating and disrespectful	INTER-PERSONAL JUSTICE	➤ Finance of the pay system
AMOUNT AND QUALITY OF FEEDBACK			
Employees	**If employees are not provided with proper justification of appraisals given:** ➤ They may not know what the appraisal results are based on	INFOR-MATIONAL JUSTICE	➤ Individuals ➤ Pay system ➤ Pay system administration
	If there is lack of feedback or it is given in an unconstructive way: ➤ This may enhance the experiences of criticism and lack of respect if results are not justified and explained properly	INTER-PERSONAL JUSTICE	
	If supervisors differ in how feedback is given: ➤ Employees are not treated equally	CONSIS-TENCY	
DIFFICULT SITUATIONS			
Supervisors	**If the feedback given varies according to the different supervisor-employee dyads:** ➤ Feedback given may vary between different employee-supervisor dyads	CONSIS-TENCY	➤ Individuals ➤ Pay system ➤ Pay system administration
	➤ Employees may act inappropriately if feedback given by the supervisor does not reflect their own impression	INTER-PERSONAL JUSTICE	
AMOUNT OF FEEDBACK			
Supervisors	**If employees are not provided with proper justification of appraisals given:** ➤ They may not know what the appraisal results are based on	INFOR-MATIONAL JUSTICE	➤ Individuals

Firstly, if the limited pay budget starts to influence the performance appraisal points given, the feedback about performance is difficult to justify. This challenges the *informational justice rule* that states that employees must be provided with sufficient justification for an outcome decision. In addition, in these situations the employee felt that the pay system "treated them like they were stupid" because they have to go through appraisals which were not based on their performance. This challenged the interpersonal justice rule that states that everyone should be treated with dignity and respect.

Secondly, feedback and justification was considered to be important in order to improve one's own performance in the future. When employees felt that they did not receive enough feedback, the *informational justice rule* was challenged again. However, employees were also interested in how feedback or justification was given. Once again, this emphasizes the role of *interpersonal justice,* in other words, giving feedback in a constructive and sensitive manner. Finally, if employees received a different level and quality of feedback due to supervisors' differences, the rule of *consistency* was violated.

Thirdly, when supervisors described difficult situations when giving feedback, two justice rules becomes salient. If ease or difficulty of appraisals is due to different personalities, the *consistency* of appraisals between different employees is challenged. In addition, if an employee treated a supervisor in an inappropriate way, the rule of *interactional justice* becomes challenged. Finally, when supervisors noted that they should give more feedback about performance to their employees, it referred once again to the rule of *informational justice*.

8.4 Summary of the results

In this section I will briefly summarize the most essential findings based on results described extensively in the preceding sections. The relevance of the findings to the theory is discussed in the following chapter.

8.4.1 Procedural challenges identified by employees and supervisors

The aim of the first research question was to find out what kinds of procedural challenges employees and supervisors have experienced with respect to the performance appraisal process. This question was approached by focusing on the reasons and sources (responsible party) of those challenge experiences.

Identified challenges

According to the results, both employees and supervisors identified similar challenges related to the performance appraisal process. In particular, challenges identified by both groups were categorized into three final core categories: 1) measurement of performance, 2) linking pay to performance, and 3) the performance appraisal interview. Although these three core categories were the same for both groups, some of the subcategories and especially their contents varied between groups to some extent.

In addition, when exploring the quantity of all arguments generated, it can be seen that employees and supervisors emphasized challenges differently. The majority of challenges in employees' arguments were related to the dynamics of the performance appraisal interview, whilst the majority of supervisors' arguments were related to the issues involving the measurement of performance.

The simplification of the categories found, their content and emphasis differences are presented in Figure 5 below. The content differences are discussed next with respect to each core category.
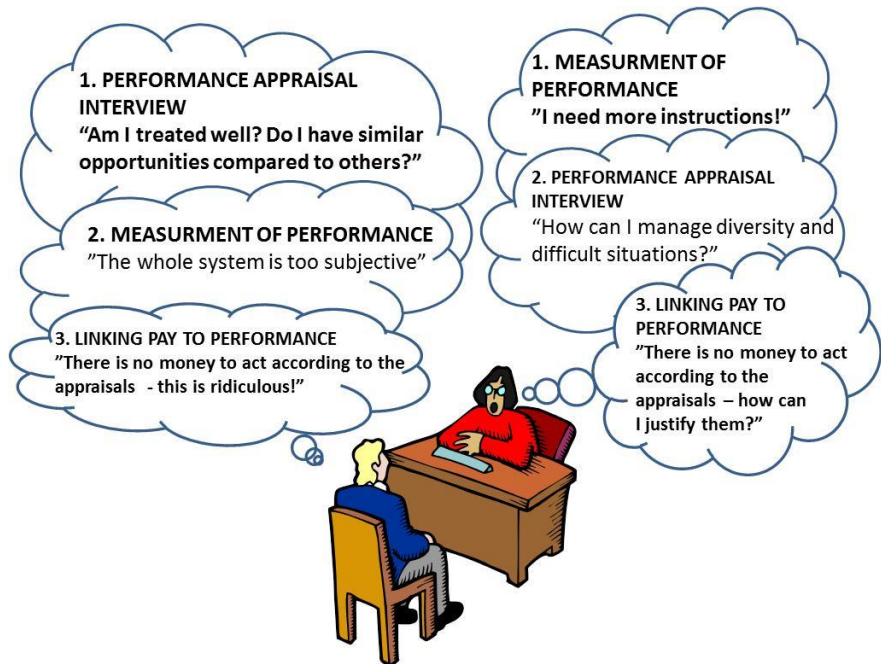
Figure 5. The content and emphasis between employees and supervisors involving the challenges of performance appraisal process

In the measurement of performance category, both groups discussed the role of the unclear appraisal scale, appraisal criteria, liking and performance knowledge as a threat to the correct measurement of employee performance. The majority of the supervisors' challenges identified involved this category.

Both employees and supervisors were concerned about the unclear appraisal scale (due to its subjective nature or lack of instructions) but only supervisors emphasized the lack of guidelines in the *use* of the scale. In addition, supervisors saw more often that the unclear appraisal instrument was due to insufficient instructions provided by the pay system administration. Instead, employees described the problem as being more fundamental and emphasized the inherent subjectivity of the appraisal tool and impossibility of objective appraisals in general.

With respect to liking, employees and supervisors discussed the challenge at a different level. Employees were more worried about liking or favoring between members of the same group (unit) and supervisors were more concerned about liking and favoring between different groups (unit). Challenges involving performance knowledge was brought up by both groups. Both employees and supervisors identified that supervisors did not

have always a proper knowledge of employees' performance due to supervisors' expertise, experience or distance. Employees also brought up that that the challenge might be due to supervisors' time management. In addition, within the measurement of performance core category, one additional challenge subcategory was only identified from the supervisors' interviews: Unclear rules and a lack of knowledge with regard to the decision-making process. In this category, supervisors expressed their concern about insufficient rules and transparency involving the appraisal practices used in their organization.

The second core category, linking pay to performance, was identified by both groups. Both groups saw that the limited budget and its connection to the performance appraisal points given were vitiated by the basic idea of the pay system, i.e. better performance should lead to better pay. Although both groups identified the same problem, employees described the consequences (calibration of or mean-instructions for appraisals) of the limited budget more often, while supervisors mainly discussed how a limited pay budget made it difficult to conduct appraisals. In this category, employees described a significant number of negative emotions that were aroused by the pay system and appraisals.

In the last category, performance appraisal interview, the content of arguments varied most. The majority of employees' challenge expressions were related to this category. Employees vividly described different personal qualities that might jeopardize the equal discussion between different employees. This was seen to influence the final appraisal result made by the supervisor. Supervisors, on the other hand, also noted the challenges with interaction but did not emphasize them as much as employees did. In addition, the focus was more on the demands that these challenges created for them as supervisors. Both groups identified the challenges related to feedback and justification. While employees were concerned about how feedback was given by the supervisor, supervisors described difficult situations they have faced when giving feedback. The essential finding in this category was that both groups saw that the pay budget, and its impact on appraisal process itself, influenced how feedback about employees' performance was given – when there was no money to change the appraisal results, the feedback about performance was also often neglected. This created frustration with the system.

Sources of the challenges

The sources of the challenges were also explored in more detail when the categorization process for answering the first research question was carried out. When examining all the arguments expressed by employees and supervisors, identified sources varied from more formal to informal ones. In particular, four different yet many times overlapping sources could be identified: individuals using the system, the pay system itself, the pay administration managing the system, and sources that were somehow beyond all the previous three. These sources were referred to as "preconditions of the system".

Given that the context of the analysis was the merit pay system and the performance appraisal process related to it, the sources of the challenges emerged in the context of the formal system itself. Thus, it was difficult to define, for example, whether the identified challenge originated from the pay system itself or the individuals trying to act according to its principles. Thus, instead of describing sources individually and separate from each other, it might be more suitable to describe the interplay and interrelations between different formal and informal sources. These sources and their suggested interplay are described in Figure 6.
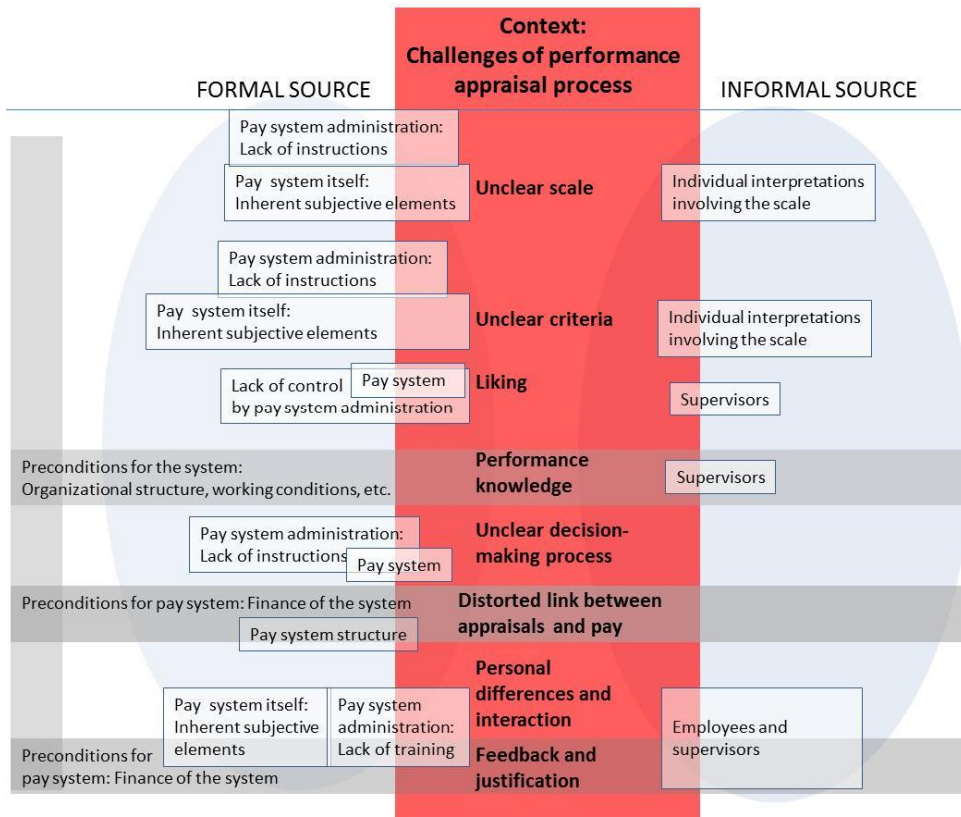
Figure 6. The sources of challenges and their interplay in the context of the performance appraisal process.

With respect to the first two subcategories of unclear appraisal scale and criteria, both groups identified similarly that the challenge can be a consequence of the subjective pay system itself (which is vulnerable to different individual interpretations), or the lack of instructions provided by the administration. Supervisors emphasized more than employees that the problem was the lack of instructions or concreteness provided by the pay system administration. On the contrary, employees emphasized more than supervisors that the fundamental problem was the pay system itself, its subjective elements and individuals' interpretation of the system. The major difference between the two arguments was that the supervisors' arguments suggested that unclear measures could be fixed by providing better instructions. Employees' arguments suggested that the subjectivity of the pay system would remain despite the instructions provided.

With respect to the subcategory of "liking", both groups saw that pay system itself allowed personal preferences to influence appraisals. However,

supervisors also saw that the pay system administration should somehow control the biased use of appraisals.

In the performance knowledge category, the sources were mainly seen as being the "preconditions" that restricted or enabled the pay system to function properly. For example, organizational structure, division of labor and such issues could cause problems for supervisors when gathering proper knowledge about employees' performance. Only employees targeted some of their arguments at the supervisors, complaining that the problem was with their insufficient time management.

Only supervisors discussed the problems relating to unclear rules and decision-making processes related to the pay system and appraisals. It was argued that the responsible party for this challenge was the unclear pay system itself, as well as the pay system administration. Supervisors hoped for more information and transparency regarding the pay system and its implementation.

The category linking pay to performance emerged in a very similar manner in both groups. In this category the source of the challenges was seen as being the financing of the pay system that did not support the structure of the pay system. Employees also referred to their dissatisfaction with the pay system administration, which was seen as being responsible for the pay system and its instructions. In this category, the general argument was that the pay system could not operate according to its principles because there was an insufficient pay budget. Both groups identified this problem and it was argued that it complicated the whole appraisal process: measurement of performance and the conduction of performance appraisal interviews. Employees also described a significant amount of negative emotional feelings in this category.

When exploring the final core category of "performance appraisal interview", the content of challenges differed to some degree, as noted before. However, both employees and supervisors shared the same opinion that the source of these challenges was mainly seen as being individuals, in that they could not fulfill the "objective appraisal" suggested by the pay system. The lack of training on interactional issues was also referred to. However, with respect to feedback issues, the blame was also targeted at the preconditions of the system. Lack of money dominated the feedback given in the appraisal interview.

8.4.2 Challenges and justice rules

The aim of the second research question was to identify the link between the procedural challenges found and the justice rules defined in the literature. In particular, the aim was to find out how the challenges identified violated the rules of justice.

I will discuss each justice rule one at a time and summarize the specific challenges identified by employees and supervisors concerning the particular rule. In addition, the sources of justice rules violations are also discussed. I will use the split between the formal and informal sources. Formal sources refer to the pay system itself, the pay system administration and other formal contextual issues (preconditions) involving the pay system. Informal sources refer to the individual agents using the system. A summary of the identified challenges and their links to justice rules are presented in Appendix 2.

In subsequent sections, I will present the findings involving every justice rule in order. I will discuss the rules of consistency and accuracy last because they were the most salient rules and involved nearly every challenge category identified by employees and supervisors.

Bias suppression

Both employees and supervisors described situations that challenge the rule of bias suppression. According to this rule, personal self-interests or existing preconceptions should not affect the procedures used. When exploring employees and supervisors' arguments, liking (and in worst case intended favoring based on liking) by the supervisor were seen to jeopardize the occurrence of truthful appraisals. Although both groups identified this same challenge, they described it at a different level (see Table 33).

Table 33. Violations of the bias suppression rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	**Formal Source**
Employees	**Liking in measuring performance**	Personal preferences, such as liking, affect appraisal outcome	• Supervisors are responsible for equal treatment	• The pay system itself is too subjective and allows for influence of personal preferences
Supervisors	**Liking in measuring performance**	Supervisors favor their own group compared to other groups in the organization	• Supervisors are responsible for equal treatment	• Pay system itself is too subjective and allows for influence of personal preferences • Pay system administration is responsible for controlling the appraisals carried out by different units

Employees mainly referred to the influence of liking inside one group; in other words, a supervisor liking some group members over others. Instead, supervisors talked about the influences of liking between different units. They were concerned whether some supervisors tried to intentionally raise the appraisal results of their own unit. In addition, employees saw that the supervisor was the source of this challenge while supervisors also demanded that the pay administration control the appraisals carried out by different units.

These differences may be due to employees and supervisors' different points of comparison and the information available. Employees probably have the best knowledge of their own group and thus compare themselves to others under the same supervisor. Supervisors, instead, compare their own actions with the actions of the supervisors from other units. With respect to the sources identified, employees accused the closest party, i.e. their supervisor, to be responsible for the favoritism, while supervisors themselves also saw that the pay system administration as being the one responsible party. However, both parties agreed that in the first place, the pay system itself allowed this kind of misuse due to its subjectivity.

Representativeness

Only employees brought up issues that could be attached to the representativeness rule. This rule states that procedures must take the basic concerns, attitudes and values of the individuals or subgroups influenced by the procedures into account. Arguments fitting the representativeness rule were related to the performance appraisal interview and the dia§logue between an employee and a supervisor (see Table 34). In particular, employees described situations where supervisors dominated the interview in a way that employees did not have a chance to express their own opinion. The responsibility for these challenges was targeted mainly at the supervisors, in that it was considered that their initial skills and styles to create interactive discussion differed. The pay system itself was also blamed, because it favored individuals with certain interactional skills. In addition, the pay system administration was blamed because it did not provide enough training relating to these issues.

Table 34. Violations of the representativeness rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	**Formal Source**
Employees	**Dialogue in the performance appraisal interview**	Due to dominance of the supervisor, employee does not have an opportunity to express his/her opinions in the performance appraisal interview	• Due to supervisors' differences, the quality of dialogue is dependent on supervisor giving the appraisal	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing proper training for supervisors

Correctability

Violations of the correctability rule were only referenced by employees (see Table 35). According to this rule, employees must be able to express grievances and make appeals, as well as having the opportunity to change or reverse decisions (Leventhal 1980). The violations described were related to the performance appraisal interview and the interaction between a supervisor and an employee. In these situations, supervisors did not give employees a chance for equal discussions or did not listen to employees' viewpoints. As a consequence, employees felt that they could not correct supervisors' points of view about their own performance. The sources of these challenges were seen as being the supervisors themselves and their weak leadership skills, as well as at the pay system and its administration. It was stated that the pay administration should provide proper training for supervisors to manage interaction in the appraisal interview.

Table 35. Violations of the correctability rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	**Formal Source**
Employees	**Dialogue in the performance appraisal interview**	Due to the quality of dialogue in the performance appraisal interview, employees felt that they do not have an opportunity to correct supervisors' views	• Due to individual differences, the quality of dialogue is dependent on individuals participating in the appraisal interview	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing a proper training for supervisors

Ethicality

Employees and supervisors identified challenges that could be linked to the ethicality rule (see Table 36). This rule states that procedures must be consistent with general moral and ethical codes and values. For example, there should be no deception, blackmailing or bribery (Leventhal 1980). Both groups saw that the lack of a pay budget complicated the actual implementation of the appraisals. When appraisal results were influenced by what money was available rather than performance, this was seen as "cheating", and violating the fundamental idea of the pay system.

Responsibility for these actions was attributed to different targets. Some argued that the main problem was the lack of money that inhibited the implementation of the appraisals. The pay system administration was also apportioned blamed because it was seen as being responsible for the pay system.

In addition, it can be argued that the ethicality rule can be challenged if personal preferences such as liking harm the appraisal process. Both employees and supervisors identified the challenge of liking. However, employees referred more to it being inside their own unit, whilst supervisors referred more to liking or favoring between units. Both groups felt that the pay system itself allowed favoring but the main responsibility of equal treatment was that of the supervisors. Supervisors also emphasized the role of the pay system administration in controlling influences of liking.

Table 36. Violations of the ethicality rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	**Formal Source**
Both	**Limited pay budget and points** (for employees also restrictive guidelines and calibration)	The appraisal process is distorted when the available money, rather than performance, starts to dominate the actual appraisals		• Insufficient financing of the pay system does not support the structure of the pay system (i.e. direct link between appraisals and pay outcome)
Employees	**Liking**	Appraisals are based on cheating if supervisors intentionally favor some members of the group over others	• Supervisors are responsible for equal treatment of their subordinates	• Pay system itself allows personal preferences to have an influence
Supervisors	**Liking**	Appraisals are based on cheating if supervisors intentionally favor their own group compared to other groups in the organization	• Supervisors are responsible for equal treatment	• Pay system itself allows personal preferences to have an influence • Pay system administration is responsible for controlling the appraisals carried out by different units

Interpersonal justice

The interpersonal justice rule refers to propriety and respectfulness of the procedures used. Both employees and supervisors identified challenges related to this rule (see Table 37). Employees described how the financing of the pay system complicated the implementation of the pay system in its present form. Employees felt disrespected and ridiculed when appraisals were conducted when the pay budget dominated appraisals rather than their own performance. Similarly, if performance feedback was prevented due to the same reasons (lack of pay budget), employees also felt disrespected. Thus the source of this injustice experience was seen as being formal sources, in other words, the pay system itself, its financing and the pay system administration responsible for the pay system. In addition, interaction in the performance appraisal interview violated the rule of interpersonal justice, particularly when dialogue between a supervisor and a subordinate was unsuccessful or the feedback was insufficient or it was given in an unconstructive way. Responsible parties were considered to be the supervisor conducting appraisals as well as pay system administration, which, it was felt, should provide proper training for supervisors.

Supervisors also described challenges that can be linked to the interpersonal justice rule. Supervisors described situations where some employees have behaved inappropriately in the performance appraisal interview. For example, supervisors had experienced shouting and accusations being leveled at them. These situations were usually related to the giving of negative feedback. Supervisors felt that employees should be responsible for behaving in the appraisal interview and when receiving feedback. However, supervisors also pointed out that everybody should receive interactional training for these issues from the pay system administration.

Table 37. Violations of the interpersonal justice rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	**Formal Source**
Employees	**Limited pay budget and points/ Restrictive guidelines/ Calibration of the results**	Employees feel ridiculed and disrespected by the pay system when the limited pay budget precludes the possibility for real performance appraisal from occurring		• Insufficient finance of the pay system does not support the structure of the pay system (i.e. direct link between appraisals and pay outcome) • Pay system administration who is responsible for instructions and carry out the calibration
	Dialogue in the performance appraisal interview	Employees feel disrespected if supervisor dominates the discussion in the performance appraisal interview	• Supervisors are responsible for also listening to employees' views	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing training for supervisors to conduct proper appraisal interviews
	The amount and quality of feedback in the performance appraisal interview	Lack of and/or unconstructive feedback enhance experiences of criticism and lack of respect	• Supervisors are responsible for giving proper feedback in a constructive way	• Pay system requires sufficient interactional skills • Pay system administration is responsible for providing training for supervisors to conduct proper appraisal interviews
	Money, points and feedback	If lack of feedback is justified by referring to lack of money when conducting appraisals, employees feel ridiculed and disrespected		• Insufficient financing of the pay system does not support the structure of the pay system (i.e. direct link between appraisals and pay outcome)
Supervisors	**Difficult feedback in the performance appraisal interview**	Some employees act inappropriately when receiving negative feedback from their supervisor	• Employees are responsible for appropriate discussions with their supervisor	• Pay system requires sufficient interactional skills • Pay system administration is responsible for providing training for employees about their role and participation to the appraisal interview

Informational justice

The informational justice rule refers to the truthfulness and justification of the procedures. Table 38 summarizes the informational justice rule violations found in this study. Both employees and supervisor argued that feedback about performance was jeopardized due to the pay system structure and in particular, the limited pay budget. Thus the source for biased feedback was seen as being the formal sources that complicated the implementation of the appraisals at the individual level. In addition to budget arguments, both groups identified the importance of giving sufficient feedback about performance in general. Only supervisors argued that the unclear appraisal scale caused problems with discussion and feedback in the performance appraisal interview. They suggested that if an employee and a supervisor interpreted the appraisal scale differently, it complicated the appraisal interview and the justification of the outcome.

Table 38. Violations of the informational justice rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	Formal Source
Both	**Money, points and feedback in the performance appraisal interview**	Truthful feedback about employee's performance is jeopardized when the limited pay budget prevents the implementation of accurate performance appraisals		• Insufficient financing of the pay system does not support the structure of the pay system (i.e. direct link between appraisals and pay outcome)
Employees	**Amount and quality of feedback in the performance appraisal interview**	Employees do not get enough justification and feedback about their performance in the appraisal	• Supervisors are responsible for providing enough justification and feedback about appraisals	• The pay system requires sufficient interactional skills • The pay system administration is responsible for providing training for employees about their role and participation to the appraisal interview
CONTINUED...				

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Defined by	**Challenge**	**Why/How?**	**Source of the violation?**	
			Informal Source	**Formal Source**
Supervisors	**Performance appraisal scale**	Supervisors and employees' differing interpretations involving the appraisal scale challenge the discussion about and justification of the appraisal interview results	• Individuals interpret appraisal scale differently	• Pay system itself consist of inherently subjective elements • Pay system administration is responsible for providing proper instructions about the appraisal scale
	Amount of feedback	Employees do not achieve enough justification and feedback about their performance appraisal	• Supervisors are responsible for providing enough justification and feedback about appraisals	

Consistency

The consistency rule was the essential rule in the performance appraisal context. This rule states that procedures should be consistent across time and individuals. This means that procedural characteristics are stable to some extent. Consistency across individuals requires that no person has a special advantage over others. Table 39 presents the challenges identified by employees and supervisors that can be argued to violate consistency rule.

Inconsistent treatment seemed to be the central challenge identified by the interviewees. Both groups identified similarly challenges involving the unclear appraisal scale and criteria, performance knowledge and the amount of feedback which could jeopardize the consistency of appraisals between individuals. The sources of these challenges were mainly seen as being the pay system itself and the contextual requirements, for example the organizational structure. Only the arguments involving the lack of feedback were targeted at the supervisors conducting the appraisals.

When comparing the content of consistency rule violations between employees and supervisors, few observations can be made. In general, employees seemed to be more concerned about individual-level inconsistencies where the immediate supervisors were seen as being responsible for perceived inconsistencies. Consequently, many of the

violations were related to performance appraisal interviews conducted by the supervisor.

In contrast, supervisors were more concerned about formal instructions and rules related to the pay system. They also blamed the pay administration more often for challenges involving the consistent implementation of the pay system and appraisals.

Table 39. Violations of the consistency rule

Defined by	Challenge	Why/How?	Source of the violation?	
			Informal Source	Formal Source
Both	Unclear appraisal scale	Performance appraisal scale is used inconsistently due to inappropriate instructions		• Pay system administration is responsible for providing proper instructions for the appraisal scale
		Performance appraisal scale is used inconsistently due to its inherent subjectivity and how individuals interpret it	• Individuals making varying interpretations about the appraisal scale	• Pay system itself consists of subjective elements
	Unclear performance criteria	Performance appraisal criteria are used inconsistently due to inappropriate instructions		• Pay system administration is responsible for providing proper instructions for the appraisal scale
	Performance knowledge/ distance, experience and expertise	Supervisors may differ in terms of how appropriate they are to assess employees' performance due to physical distance between a supervisor and an employee, the supervisor's experience or expertise		• Organizational structure does not fit the demands of the pay system (i.e. performance knowledge can be obtained) • Pay system administration is responsible for ensuring with pay system rules that the right people are doing appraisals
Employees	Unclear performance criteria	Performance appraisal criteria are used inconsistently due to their inherent subjectivity and how individuals interpret them	• Individuals making varying interpretations about the appraisal criteria	• Pay system itself consist of subjective elements
	Liking	Employees are not treated consistently if a supervisor favors some group member(s) over other(s) based on liking	• Supervisors are responsible for equal treatment of his/her subordinates	• Pay system itself allows personal preferences to have an influence

Performance knowledge/ supervisors' time management	Employees are not treated consistently if time spent on performance observation differs between supervisors	• Supervisors are responsible for booking time to gather knowledge about employee performance	
interactional skills of employees	Some employees have better interactional skills and may have advantage in performance appraisal interview	• Individual differ in interactional skills	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing training for individuals on interactional skills
Will and ability of the supervisor to conduct appraisals	Employees between different units may not be treated consistently if supervisors have varying degrees of skills and will to conduct performance appraisals	• Supervisors are responsible for conducting appraisals and ensure their motivation to do so	• Pay system requires sufficient interactional skills • Pay system administration is responsible for providing training for supervisors
Dialogue in performance appraisal interview	Employees are not treated consistently if the quality of the appraisal discussion is dependent on the supervisor	• Individuals differ in their discussion skills	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing training for individuals on interactional skills
Amount and quality of feedback	Employees may not be treated consistently if supervisors differ in how they give feedback	• Supervisors differ in their feedback giving skills	• Pay system itself requires sufficient interactional skills • Pay system administration is responsible for providing training for supervisors on feedback issues
Unclear instructions for the use of appraisals scale	Employees are treated inconsistently between units if supervisors **use** appraisal scale differently		• Pay system consist of unclear elements, i.e. appraisal scale • Pay administration is responsible for providing proper instructions for the use of the appraisal scale
Liking	If supervisor favors his/her own group based on liking, employees between different units are not treated consistently	• Supervisors should not base their decision on liking	• Pay system itself allow personal preferences to influence • Pay administration is responsible for controlling the distribution of performance appraisal points
Unclear roles and rules in the decision-making process	Employees are treated inconsistently if roles and rules in the decision-making process are unclear at the organizational level		• Pay administration is responsible for providing clear rules and definitions for the roles relevant in the decision-making process involving performance appraisals

Supervisors

Performance knowledge/ number of employees	Supervisors with many employees have fewer opportunities to observe performance of each employee (compared to the supervisors with few employees)		• Organizational structure does not fit the demands of the pay system (i.e. performance knowledge can be obtained) • Pay system administration is responsible for ensuring with pay system rules that the right people are doing appraisals
Interaction in the performance appraisal interview	The quality of appraisals varies depending on the quality of interaction between different supervisor-employee dyads	• Individuals differ in their abilities to interact	• Pay system itself gives advantages to those with good interactional skills • Pay system administration is responsible for providing proper training for the individuals participating in appraisals
Amount of feedback	Employees are not treated consistently if the amount of feedback given differs between supervisors	• Supervisors are responsible for giving proper feedback	

Accuracy

The accuracy rule turned out to be the central justice rule alongside consistency in the performance appraisal process. The accuracy rule states that procedures should be based on valid and sufficient information, with a minimum of error. Both groups expressed concerns that could violate the principles of accuracy. These challenges are presented in Table 40.

Both groups suggested that unclear appraisal scales and criteria, performance knowledge and the limited pay budget threatened the accuracy of appraisals. In most cases, the blame was targeted at the formal side of the pay system such as the pay system itself, the pay system administration, finance of the system or other contextual factors.

However, when employees and supervisors' comments were compared, the same observation could be made as with the consistency rule. Employees were more concerned about individual-level accuracy rule violations whilst supervisors reported more inaccuracies at the formal level, such as the pay system and its administration.

Table 40. Violations of the accuracy rule

Defined by	Challenge	Why/How?	Source of the challenge?	
			Informal Source	**Formal Source**
Both	**Unclear appraisal scale**	Performance appraisal scale can be understood and used differently due to inappropriate instructions		• Pay system administration is responsible for providing proper instructions for the appraisal scale
		Performance appraisal scale can be understood and used differently due to its inherent subjectivity and how individuals interpret it	• Individuals making varying interpretations about the appraisal scale	• Pay system itself consists of subjective elements
	Unclear performance criteria	Performance appraisal criteria can be understood and used differently due to inappropriate instructions		• Pay system administration is responsible for providing proper instructions for the appraisal scale
	Performance knowledge/distance, experience and expertise	Supervisors may differ in their possibilities to evaluate employees' performance due to physical distance between a supervisor and an employee, supervisors experience or expertise		• Organizational structure does not fit the demands of the pay system (i.e. performance knowledge can be obtained) • Pay system administration is responsible for ensuring with pay system rules that knowledgeable persons are doing appraisals
	Limited pay budget and points	Performance appraisals are based on available pay budget, not accurate performance		• Finance of the pay system does not support the direct link between appraisals and pay outcome
Employees	**Unclear performance criteria**	Appraisal criteria are unclear due to their inherent subjectivity and how individuals interpret them	• Individuals making varying interpretations about the appraisal criteria	• Pay system itself consists of subjective elements
	Liking	Appraisals are not based on accurate information if supervisor favors some group member(s) over other(s) based on liking	• Supervisors are responsible for equal treatment of their subordinates	
	Performance knowledge/ supervisors' time management	Appraisals may not be based on accurate information if supervisors do not have enough time to gather information about employees' performance	• Supervisors are responsible for booking time to gather knowledge about employee performance	

Restrictive instructions/ Calibration of the results	Appraisals are no longer based on accurate performance information when restrictive instructions start to influence appraisal carried out or appraisals are calibrated afterwards		• Finance of the pay system does not support the direct link between appraisals and pay outcome • Pay system administration is responsible for distorting instructions
Interactional skills of employees	Appraisals may be based on impressions, not performance-related facts	• Individuals differ in their verbal/impression management skills	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing training for individuals on interactional skills
Will and ability of the supervisor to conduct appraisals	Appraisals may not be based on accurate information if supervisors have varying degrees of skills and will to conduct performance appraisals	• Supervisors are responsible for conducting appraisals properly	• Pay system requires sufficient interactional skills • Pay system administration is responsible for providing training for supervisors
Dialogue in performance appraisal interview	Appraisals may not be based on valid information if employees do not have a chance to voice their opinions in the appraisal interview	• Supervisors are responsible for taking employees' viewpoints into account	• Pay system itself gives advantage to those with good interactional skills • Pay system administration is responsible for providing training for individuals on interactional skills
Unclear instructions in the use of appraisals scale	Accurate appraisals are threatened by insufficient instructions involving the **use** of the appraisal scale		• Pay system is unclear, i.e. appraisal scale • Pay administration is responsible for providing proper instructions for the use of the appraisal scale
Liking	Appraisals are not based on accurate information if supervisors favor their own group members	• Supervisors are responsible for not basing their decisions on personal preferences	• Pay administration is responsible for controlling the distribution of performance appraisal points
Performance knowledge/ Number of employees	Supervisors with many employees have fewer opportunities to observe performance of each employee (compared to supervisors with few employees)		• Organizational structure does not fit the demands of the pay system, i.e. performance knowledge can be obtained • Pay system administration is responsible for ensuring with pay system rules that knowledgeable people are doing the appraisals

Supervisors

| **Unclear roles and rules in the decision-making process** | Accuracy of appraisals are threatened if the roles and rules of the decision-making process are unclear at the organizational level | | • Pay administration should provide clear rules and definitions for the roles relevant in the decision-making process involving performance appraisals |
| **Interaction in the performance appraisal interview** | Important information may be left unsaid depending on the interactional abilities of the employee | • Individuals differ in their interactional skills | • Pay system gives advantages to those with good interactional skills
• Pay system administration is responsible for providing proper training for the individuals participating in appraisals |

9. Discussion and conclusions

Next I will discuss the most essential findings of this study. This is done in the following order.

In section 9.1, I present and discuss the general findings concerning the two research questions set for this thesis: challenges identified, their sources and in particular, how they were related to the procedural and interactional justice rules defined in the literature. These results contribute to the justice field by showing that both justice types can originate from both informal and formal sources.

In section 9.2 the focus moves to the findings concerning injustice source perceptions that emerged while the research questions were answered. In particular, it was found that challenges (i.e. experiences of injustice) could originate not only from formal and informal sources but also often as a combination of them. In particular, formal rules of the pay system were brought up (in combination with other sources) with respect to every identified challenge. I compare these findings to the literature involving justice sources and present a general model that shows how experiences of injustice can be understood from the systemic justice perspective. The model contributes to the previous definitions by suggesting that systemic justice perception is not formed only by the formal factors, but also through the relationships that formal and informal factors have in the pay system context. After that, in section 9.3, I will continue with the topic and address the role of discretion and accountability and their relevance to source perception.

In section 9.4, I will consider the similarities and differences between the challenges identified by supervisors and employees. These results are discussed last because the previous sections (9.1-9.3) provide a basis for understanding the similarities found in the employees and supervisors' views. These findings contribute to the justice literature by underscoring

the importance of role differences and the contextual constraints influencing employees and supervisors' perceptions.

After discussing the theoretical relevance of the findings, I will present few practical implications in section 9.5. Finally, in the last two chapters I will evaluate my study and make suggestions for future research.

9.1 The challenges and justice rules

This study shows that the central challenges of performance appraisal and the merit pay system were related to three core categories: Measurement of performance, linking pay to performance and the performance appraisal interview. The first one dealt with issues challenging correct performance measurement. The second core category dealt with the pay budget and its connections to the appraisals, i.e. how appraisals were financed. The third category dealt with interaction in the performance appraisal interview.

The source arguments involving every category and their subcategories were also explored. Challenges could originate from more formal sources, such as the formal pay system itself (e.g. performance measures), its support functions (instructions provided by the pay system administration), or other preconditions of the system (e.g. as pay budget, suitable organizational structure). Challenges could also originate from informal sources, in other words, those of supervisors or employees.

Every challenge category and their sources were compared to the procedural and interactional justice rules defined in the literature (see summaries presented in section 8.4.2). Previous literature has suggested that both justice types (procedural and interactional) can flow from both formal and informal sources creating four components or multifoci of justice (Blader & Tyler 2003$_a$; Rupp & Cropanzano 2002; Colquitt & Shaw 2005): First, *formal procedural justice* involves justice evaluations concerning the organization's formal rules and policies. Second, *informal procedural justice* consists of evaluations of how some specific authority figure implements formal rules and policies. Third, the *informal interactional justice* refers to the traditional interactional justice concept: how a particular group authority treats group members. Fourth, *formal interactional justice* refers to how formal rules and policies influence the treatment of group members.

In their four component model, Blader and Tyler (2003$_a$) suggested that the previous literature has not explicitly recognized all four components (see the more detailed discussion about the model in section 4.4). In particular, what is not known is how structural factors might influence the informal treatment experienced in the context of one's group membership. In addition, the authors suggest that more should also be known about informal decision-making: although group rules prescribe decision-making procedures, it is up to the particular individual to implement those procedures.

The results of this study (see summary in section 8.4.2.) found support for all four components of justice when the challenges identified and their sources were compared to the procedural and interactional justice rules. Accordingly, the results showed that all rules can be violated by both formal and informal sources.

The results showed how procedural justice rules were violated by both formal and informal sources. For example, formal issues such as the appraisal tool, instructions, the pay budget and other organizational conditions created challenges for procedural justice rules to be realized. On the other hand, the results showed that procedural justice rules were violated by individuals. For example, a supervisor's way of conducting appraisals jeopardized the consistent and accurate implementation of the appraisals.

The findings also shed light on the sources of interactional justice. Traditionally, this justice concept has been understood to involve interaction between individuals (see Blader & Tyler 2003$_{a\&b}$; Bies & Moag 1986). The results of this thesis involving the performance appraisal interview category described these issues. Many of the challenges in this category dealt with interaction and in particular, how individual differences complicated it. Thus, these results were consistent with previous interaction justice conceptualizations.

However, support was also found for interactional justice originating from formal factors. This implies that formal factors, such as the pay system and its rules, can communicate disrespect and violate individuals' sense of dignity. The results suggest that this occurred when the pay budget dominated the appraisal process and the pay system did not function according to its promised logic (in other words, performance determines pay). Employees felt that the system communicated disrespect and underestimation, because they were still supposed to participate in

appraisals and "pretend" to take them seriously. This same challenge also challenged informational justice, when the insufficient pay budget influenced the way that feedback and justifications were given in the performance appraisal interview.

In addition to their different sources, different justice rules seemed to have different relevance in the merit pay and performance appraisal context. According to the findings, the rules of consistency and accuracy were the most important in the performance appraisal process. Their centrality is easy to see because the pay systems studied were based on principles of equity rule. Accordingly, when pay was contingent on performance, individuals were concerned whether they would be treated consistently with others and how performance differences can be accurately verified. This result is consistent with previous studies (Greenberg 1986$_a$).

In addition, there was also an interesting relationship between justice rules themselves; violations of other justice rules also jeopardized the consistent treatment of employees and accurate decisions. For example, problems with interaction (between employee and supervisor) were seen to violate the rules of interpersonal justice, correctability and representativeness. As a consequence, this challenged the consistent treatment of individuals and decision-making based on accurate information. Thus, it might be suggested that consistency and accuracy rules are some sort of "master rules" covering other justice rules, at least in the context where distributions are based on the equity rule.

Finally, it was a little bit surprise that results did not clearly reveal any new additional justice rule. However, results revealed that justice rules can operate at different levels and this has to be taken account when individual justice experiences are explored. More importantly, results showed that source arguments consisted of intertwined elements. These findings are discussed next and their relevance to the concept of systemic justice is presented.

9.2 The systemic justice perception

The source differences became evident when the three core categories (measurement of performance, linking pay to performance and the performance appraisal interview) were compared to each other. They seemed to operate at different levels. In particular, the "measurement of performance" and "performance appraisal interview" categories consisted of challenges related to the performance appraisal process itself. In other words, these two categories dealt with the issues that jeopardize the fair measurement of performance and how the result of the appraisal was communicated to the individuals in the appraisal interview. However, the third category "linking pay to performance" clearly differed from the other two categories. It operated "above" them, involving the financial issues and related rules which determined how appraisal results were connected to pay outcomes. It created some sort of boundary condition for the individual-level implementation of the appraisals.

The sources of experiences of injustice also varied from individual-level arguments to more systemic-level arguments. More importantly, the source arguments in each of the three categories were nearly always intertwined: The challenges were considered to be consequences of the pay system itself and its relationship to informal and formal aspects of its surrounding environment. Next I will discuss this finding with respect to the previous definitions of formal and informal sources of justice. Because the context of this study is the pay system, I will particularly discuss my findings with respect to the concept of systemic justice.

Formal and informal sources of justice

Previous literature has used the concept of "systemic justice"(Beugré & Baron 2001; Harlos & Pinder 1999; Sheppard, Lewicki & Minton 1992; Greenberg 1993), "system procedural justice" (Erdogan 2001; 2002), "organizational procedural and interactional justice" (Rupp & Cropanzano 2002), "formal bases of procedural justice" (Blader & Tyler 2003), or "policy justice" (Brown et al. 2010) when distinguishing between justice experiences that flow from the factors above the individual-level actions. A formal source has been understood to be related to fairness perceptions involving the "organization as a whole" (e.g. Cropanzano, Byrne, Bobocel & Rupp 2001; Rupp & Cropanzano 2002), or the focus has been on specific formal policies or subsystems within an organization (e.g. Sheppard 1992 et

al. ; Cobb et al. 1997; Erdogan 2001; Brown et al. 2010). In the next sections I will describe and discuss the formal and informal sources of justice, focusing in particular at the subsystem or policy level due to context of this study.

The distinction between formal and informal sources of justice underscores the importance of distinguishing the formal rules or policies that create the conditions for decision-making from the actual informal situation where a decision is made. Policies tend to be more stable and general over time and across many situations, while individual-level procedural justice evaluations are usually focused on one specific situation (Brown et al. 2010). It is suggested that individuals can make the separation between the policy and how it is implemented by managers (Cobb et al. 1997; Brown et al. 2010; Sheppard et al. 1992; Blader & Tyler 2003a; Byrne 1999; Rupp & Cropanzano 2002). For example, a manager may implement a fair policy in an unfair manner or vice versa.

Different authors have used different conceptualizations when referring the justice experiences originating above individual-level actions. The definitions are summarized in in Table 41 (see also measures used of those definitions including empirical data in Appendix 3). Next these definitions are discussed in more detail.

Table 41. Different conceptualizations of formal and informal sources of justice

Concept	Authors	Definition
Systemic justice	Beugré & Baron (2001)	Perception of systemic justice (i.e. organization as a fair system overall) flows from the quality of procedures, interactions and outcomes delivered in the organization
Systemic justice	Sheppard, Lewicki & Minton (1992); Harlos & Pinder (1999)	Systemic justice refers to the broader organizational context in which procedures and distributions are embedded. Individuals distinguish between systemic-, procedural- and distributive-level justice.
Systemic justice	Greenberg (1993)	Variety of procedural justice that is accomplished via structural means (compared to social determinants of procedural justice)
System procedural justice	Erdogan (2001; 2002)	Perceived fairness of the performance appraisal procedures adopted by the organization (when rater procedural fairness refers to perceived fairness of procedures raters use during performance appraisals)
Organizational procedural/ interactional justice	Cropanzano, Byrne, Bobocel & Rupp (2001); Rupp & Cropanzano (2002); see also Byrne (1999)	Multifoci approach separated between organizational procedural and interactional justice from supervisory procedural and interactional justice. According to Byrne (1999, 9), the term "organization" refers to an "individual, group, or decision maker other than one's immediate supervisor, who represents the goals and policies of the company"
Formal bases of procedural justice	Blader & Tyler (2003a&b)	The fairness of the procedures prescribed by the rules of the organization for making decisions about allocations, for resolving conflicts, etc. (compared to informal decision-making)
Policy justice	Brown, Bemmels & Barclay (2010)	Rules or policies that create the conditions for decision-making and can be separated from the actual situation where a decision is made

The first definition by Beugre and Baron (2001) presumes that the perception of systemic justice (i.e. organization as a fair system overall) flows from the quality of procedures, interactions and outcomes delivered in the organization (Beugré & Baron 2001). As Beugré and Baron (2001, 325) put it:

"...because of the difficulty that employees face in gathering information about the fairness of the organizational as a whole, they are likely to use perceptions of distributive, procedural and interactional justice as a heuristic to draw inferences about whether, and to what extent, the organization is a fair system overall."

This view emphasizes the role of individual agents and their actions that create perceptions of the "fairness in general" - a more formal, systemic justice. In that way, it is close to the ideas of fairness heuristic theory [15] (e.g. Lind & Tyler 1988; Lind 2001)

A slightly different and more focused view is emphasized by other definitions presented in the table. They all emphasize that in addition to procedures used and outcomes distributed, systems themselves may be perceived as fair or unfair (Sheppard et al. 1992; Harlos & Pinder 1999; Brown et al. 2010; Blader & Tyler 2003[a&b]). For example, Sheppard et al. (1992) defined the systemic level of justice to involve the broader organizational context in which procedures and distributions are embedded. The term can refer to the organization as a whole or a particular subsystem in it, for example pay system. The evaluated situation must pass tests at the three separate levels in order for justice to occur; the level of the outcome itself, the procedure that generated and implemented the outcome and the system within which the outcome and procedure were embedded. It is possible for example that the individual perceives outcomes and procedures as fair but still perceives the system as unfair (Sheppard et al. 1992, 14).

Greenberg (1993) also defined systemic justice by referring to the variety of procedural justice that is accomplished via structural means. Erdogan (2001; 2001) suggested that in performance appraisals, individuals can distinguish between perceived fairness of the performance appraisal procedures adopted by the organization from the procedures raters use during the implementation of performance appraisals. The multifoci approach (Byrne 1999; Cropanzano et al. 2001; Rupp & Cropanzano 2002) also distinguishes organization-originated procedural and interactional justice from supervisor-originated procedural and interactional justice. In this definition, "organization" refers to formal authority figures others than person's immediate supervisor (Byrne 1999, 9).

Blader and Tyler (2003[a&b]), in their "four component model", distinguished between the policies, rules and prevailing norms of the group as a whole, and the actions of particular representatives of the group. Brown et al. (2010) introduced the concept of "policy justice". According to the

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[15] Fairness heuristic theory states that because individuals lack a full set of information, perceptions of justice are used heuristically. According to Lind (2001, 56) "fairness judgments are assumed to serve as a proxy for interpersonal trust in guiding decisions about whether to behave in a co-operative fashion to social situation."

definition, policies are conceptual or an abstraction used to guide decision-making, whereas procedural justice involves implementation of those policies in a specific situation.

The majority of the definitions described above (except Begré and Baron 1991) understand formal sources to refer to the structural aspects and formal rules that create preconditions for distributive and procedural justice to occur. The focus is on how the system is structured with formal rules to assure fair implementation. In addition, formal sources may also include actions of the faceless, formal authorities who deliver different policies (e.g. Rupp & Cropanzano 2002). In general, all definitions suggest that the formal bases of justice experiences can be distinguished from more individually originated justice experiences.

To oversimplify slightly, previous literature has used the term "systemic justice" (and other related concepts presented in table 41 except Beugre and Baron 1991) when referring formal sources justice i.e. those experiences that flow from formal systems, rules, and procedures delivered by anonymous authorities other than specific individual agents. This distinction has also found support in empirical studies. Cobb et al. (1997) found that when individuals evaluate the fairness of their performance appraisals, they perceive both their organization's formal policies and their supervisors as jointly and independently responsible for the procedural justice they receive in the performance appraisals (Cobb et al. 1997, 1034). The multifoci factors consisting of organizational procedural/interactional justice and supervisory organizational/interactional justice has also found support (Rupp & Cropanzano 2002). Brown et al. (2010) found that policy justice was independent of other forms of justice.

This separation between formal and informal justice sources is important both theoretically and empirically. For example, it has been suggested that different source perceptions differently predict direct attitudinal and behavioral outcomes (Lavelle et al. 2007). Although the distinction seems to be reasonable, the concept of systemic justice remains blurred. Previous literature has mainly ignored its conceptual development, although the concept seems to be highly relevant, at least in the organizational context. Important questions about the concept are left unanswered: How do the formal sources differ from informal sources (see measures used in Appendix 3)? How are the formal and informal sources related? How are perceptions of formal or systemic injustice formed?

Previous definitions of systemic justice emphasize the role of the organization's codified rules and policies (made by anonymous authorities) when individuals are forming their perceptions of systemic justice. Although researchers have noted that the formal sources must invariably be correlated with informal ones, the underlying dynamics are not well understood (Cropanzano et al. 2001; Blader & Tyler 2003[a]; Greenberg 2001).

The results of this study suggest that fairness of the formal rules cannot be understood in a vacuum without considering the consequences when they are put into practice. In other words, can there be perceptions of formal rules or systems without experiences of their implementation? It can be argued that the formal rules and systems are, at least partly, perceived and understood by their individual-level consequences. In a similar vein, individuals' actions must be understood, at least partly, within the boundaries of formal systems. As the results showed, sources of the challenge categories varied from individuals to more formal sources. However, in addition to other sources, the blame arguments were always attached to the formal pay system itself in every challenge.

The elements that contribute to the perceptions of systemic justice have been mainly ignored in the previous literature. Sheppard et al. (1992, 39) were among the few (see related discussion Cropanzano & Byrne 2001; Sitkin & Bies 1994) that discussed the concept of systemic justice in more detail and defined six criteria that influence its perception: 1) *control of abuse,* which states that no one in a position of power gets or gives undue advantage from the exercise of that power, 2) *Inclusions,* which states that all relevant interests are recognized in the process, directly or through representation, 3) *opportunity,* which states that all individuals have equal access to the system, [16] 4) *responsiveness to change,* which states that if the environment changes significantly, the system should change to sustain it, 5) *stability,* which suggests that the system should apply similar procedural and distributive solutions across similar situations at different times and across different types of people; and 6) *legitimizing and sustaining the "real" interest,* which means, according to the Sheppard et al (1992, 42), that "while systems should be responsive to change and assure that new interests can be heard as the system changes, at the same time the most

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[16] Sheppard et al. (1992, 40) gave an example of this standard: in the United States one's economical background influences future education possibilities. High-class universities have high annual fees which limit the people who can afford to attend there.

significant and important interests should always be able to maintain their role in the system". Finally, the authors admit that although it is difficult to precisely define tensions between stability and change, and ensuring "real" interest, these standards will ensure that the system is perceived as correct (Sheppard et al. 1992, 42).

Although some of the standards (control of abuse, inclusion, opportunity, stability) are close to traditional procedural justice standards (e.g. Leventhal 1980), the list also provides some insights beyond traditional conceptualizations. The standard "responsive to change" is particularly important. Although it reflects Leventhal's correctability rule in some form, it still goes "beyond" the conditions of the system and takes account of the fact that the system may become perceived as unfair because of *its relation to its environment*. This extends the traditional conceptualizations of systemic justice that has mainly neglected the fact that the systemic fairness perceptions may be affected by the relationships that system has with its context. The focus on relations may also help to clarify how perceptions of systemic justice/injustice are formed in the first place. Next I will discuss and develop this idea further based on the results of this study. I will present a model that might increase our understanding about the concept of systemic justice.

The systemic justice model based on this study

The findings of this study showed that source perceptions were not targeted at just a single source. Although it was clear that some of the challenges were seen to originate more from individual-level actions, at the same time they also questioned the assumptions of the formal pay system itself. Clues about fairness of the formal system (written policies and rules) were not gained focusing only on the content of rules and policies but also from their consequences, when the rules were put into action.

This has important implications for the systemic justice concept in general. I suggest that the concept of systemic justice cannot be understood by focusing *only* on the content of the official rules and statements of the system. It is possible that seemingly fair rules become unfair due to their mismatch with surrounding contextual factors. Thus, I suggest that the perception of the system's unfairness can originate from the conflicting interrelations, not necessarily only from the qualities of individual elements/actor of the system. Thus, the *relations* between different formal

and informal elements/actors, not just formal rules and procedures themselves, also influence the systemic justice perceptions.

These kinds of ideas are presented by systems theory (Boulding 1956; Von Bertalanffy 1968; Katz and Kahn 1978). Ashforth (1992, 376), for example, defined that the focus of system theory is "on the set of the whole, the interplay between the units, the units' relationships with the larger environments". The systems approach focus on the interrelations, not on the individual elements of the system. It suggests that from these dynamic interrelations the new properties of the system may emerge. Contingency theory (e.g. Burns & Stalker 1961; Lawrence & Lorsch 1967; Senge 1990) also focuses on these reciprocal relationships by emphasizing the "fit" between different elements of the systems. Contingency theory is a broad theoretical framework that has been used for viewing various phenomena, such as appropriate structure of the firm (Mintzberg 1979) or efficiency of leadership (see e.g. Fiedler 1978). To simplify, contingency theory suggests that there is no one best way of doing things, for example to organize a company, lead a team, or to make a decision. Instead, the best way of doing things is dependent on fit between different elements of the organization (such as structure, individuals, technology) and the other contextual factors.

Thus, based on the results of this study, ideas of formal and informal sources of justice, assumptions of systems theory and contingency theory, I suggest that the unfairness perceptions involving the formal system is formed not only by its formal rules and structures, but also through the relations that the system has with its context. In addition to the written down rules and structures in a formal system itself, I suggest three conflicting relations that also influence the perceptions of the systemic justice or injustice: The relation between formal elements (between formal pay system and other formal systems or subsystems), the relation between formal and informal elements (system and individuals implementing it), and systems' relation to interaction between informal elements (between individual actors) in the pay system context.[17] These relations are presented in Figure 7. Although some of these conflicting relations were also attributed primarily to individual sources, they also all provided "hints" about systemic justice.

[17] Formal elements refer to the formal pay system itself (such as measures, scales instructions), formal authority figures (for example HR) and the formal context in general in which the pay system is implemented (for example organization, its structure, environment, etc.). Informal elements refer to individual actors participating in the implementation of the system as users or as targets.
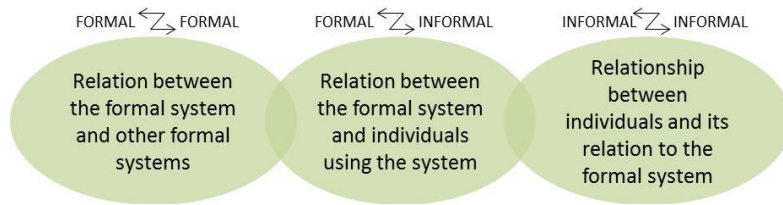
Figure 7. Three conflicting relationships between the formal system and its context influencing systemic justice perception

The role of *expectations* is of significant importance here (see e.g. Cropanzano & Ambrose 2001). Formal procedures or policies create expectations that communicate what is valued by the organization and inform how individuals should be treated. It is suggested that prior expectations affect judgments of procedural justice. Thus, procedures that meet expectations are usually judged more positively than those that do not (Cropanzano & Ambrose 2001).

For example, in an appraisal and pay system context, formal rules provide a norm against which the actualized experiences are compared. In this way, they form the expectations for fairness perceptions. The appraisal and pay systems studied in this thesis created expectations for equity: The amount of merit pay is dependent on individual-level performance. By "promising" that, it sets certain expectations on procedures and interaction (see also Folger et al 1992; Folger & Cropanzano 1998) which organizations should meet:

a) Accurate performance knowledge can be obtained

b) Valid performance measures exist

c) Individual qualities (other than in performance) do not influence appraisal outcomes

d) Performance appraisal results directly determine the amount of merit pay

I argue that perceptions of systemic injustice evolved when these expectations could not be met due to conflicting relations that the formal system had with its context (see Figure 7). In other words, although the pay system's "written down" formal ideas seemed to reflect the justice principles well, the assumptions of the system were questioned when it was put into practice.

Based on these ideas, I present a model that covers the relations between formal pay system and its context that influence the formation of systemic justice perception. The model is illustrated in Figure 8. As noted before, some of the conflicting relations involved mainly individual-level source perceptions, but at the same time, these individual-level actions questioned the intended formal rules and procedures of the system (marked in the Figure 8 with dashed line arrows). Next the three relations between pay system and its context are described with respect to the findings of this study in general and to the concept of systemic justice in particular.
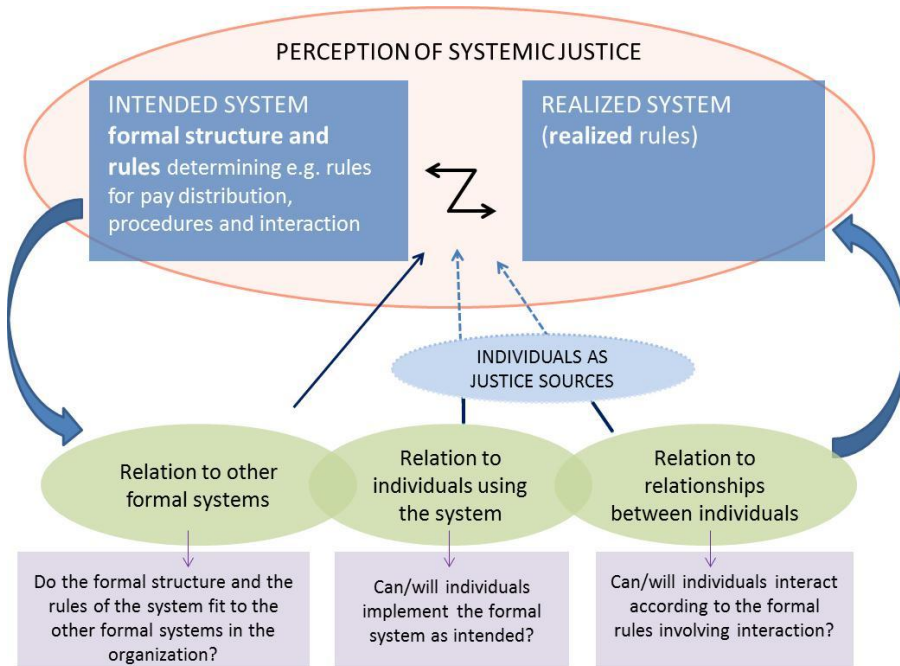
Figure 8. Model of this study: Elements creating systemic justice perception

Relation to other formal systems

The findings of this study suggest that perceptions of systemic unfairness evolved when the pay system was not supported by other formal systems in the organization. This happened when the financing of the pay system was insufficient, the structure of the organization complicated the accuracy of appraisals, or the pay system lacked formal instructions. These findings emphasize that the fairness of the system is not a condition originating from only the formal pay system itself. Instead, the experiences of injustice

evolved through the relations between the pay system and other formal systems.

One way to describe the relationship between different subunits of the organization and its environment is by borrowing the concept of "fit", defined by contingency theory (e.g. Burns & Stalker 1961; Lawrence & Lorsch 1967; Senge 1990). Applied to the pay system context, this might refer to how well the chosen pay system fits with the organization (its strategy, personnel, structure, leadership processes etc.), and how different subsystems support each other (Lawler 1990).

The results of this study gave good examples of how an intended pay system can convert in ways other than intended due to contextual mismatches. The results showed, for example, that the experiences of injustice originated when an insufficient pay budget inhibited the pay system in its operation according to its principle. In particular, the pay budget created a mismatch between two different processes of the pay system: performance appraisal process and linking pay to performance appraisals. However, when these two processes (appraisal process and the process of linking appraisals to money) are explored separately, they seem to represent the principles of justice quite effectively. For example, the performance appraisal process was well-defined and instructed: performance was evaluated against written criteria similar for everyone, appraisal interviews were instructed to be given in a participative manner, supervisors were trained to carry out appraisals, etc. In addition, the direct link between performance appraisals and pay outcome may have been an attempt to make the system more objective (when supervisors were only responsible for appraisals and not dealing directly with money).

Thus, it can be argued that both processes were based on justice safeguards, which were supposed to ensure a fair pay system. However, when insufficient finances started to dominate the appraisal process, this fine idea of a direct link between appraisal and pay outcome turned against itself. Cropanzano and Ambrose (2001) discussed related issues when referring the concept of "process failure" in their monistic model of justice. Although they did not connect process failure to the concept of systemic justice, it provides an example of systemic injustice. Authors noted that procedures are not inherently fair or unfair, even though they are based on principles of justice. Single procedures may stop to serve its larger objectives if there is incongruence with other established procedures. This might happen when organizations establish "overly" formal policies to

ensure fairness. Finally, this leads to inflexible decision-making and bureaucracy. The single procedure can turn against itself.

This idea is also emphasized in the pay system literature. Rather than adopting "one best way" design or structures of pay systems, the aim is to fit the pay system to the strategy of organizations and the goals of other human resource subsystems in the organizations (Balkin & Gomez-Mejan 1987; Lawler 1996; Lawler 2000; Heneman et al. 2000; Beaten 2007). In this way the pay system itself must be understood as an aggregate of subsystems or subunits that must fit the needs and goals of the other related subsystems in the organization. Each part affects the others and each depends upon the whole. As Heneman & Werner (2005) noted, pay-for-performance systems do fit better to some contexts than others. For example, as Ingraham (1993) suggested, private sector organizations usually have better preconditions, such as pay system funding, to implement pay-for-performance systems than public sector organizations.

Analogically, I suggest that fairness of the systems in general cannot be fully understood by exploring only an individual system and its formal qualities. Rather, in most conditions the fairness must be understood as a consequence of the interrelations between different subsystems. Properties of the system (such as fairness) emerge from these dynamic interrelations. Next I will provide a few examples of this based on the results of this thesis.

The results of this thesis showed that the mismatch between formal elements of the system created experiences of injustice. These conflicting relationships between the pay system and other formal systems violated the goals of the intended formal pay system. This is described in more detail in Table 42 below. Expectations created by the intended formal pay system are presented on the left column and misfits between formal factors found in this study on the right column.

Table 42. Perception of unfair pay system originating from the conflicting relations between formal systems

Intended pay system	Realized pay system: Examples of conflicting relations between formal factors found in this study
Performance appraisal result determines the amount of merit pay	• Distorted link between appraisals and pay: Conflict between finance of the pay system (pay budget) and the structure of the pay system (direct link between performance appraisal points and pay outcome) *"I do not have the money to raise his performance points although his performance has improved…why bother conduct a performance discussion?"*
Valid performance measures exist	• Unclear appraisal tool (scale, criteria, decision-making rules): Conflict between instructions provided by the pay system administration and the pay system ➔ Performance appraisal tool suffers from lack of instructions provided by the pay system administration *"Better and more concrete instructions must be provided by the pay system administration…unless it is very difficult to use the appraisal scale."*
Accurate performance knowledge can be obtained	• Lack of performance knowledge: conflict between organizational structure and pay system requirements ➔ Different conditions (organizational structure, working conditions) inhibited supervisors access to proper performance knowledge *"This system does not fit here…we have large unit sizes and it is impossible for supervisors to be fully aware of employees' performance"*

Results suggest that incongruence between one system and other formal systems created perceptions of systemic injustice. The expected pay system could not be realized when it suffered from a lack of financing or instructions. In addition, the fairness of the system was also questioned when accurate performance knowledge could not be obtained due to organizational conditions, such as structure.

Relation to individuals using the system

One type of challenge emerged when individuals were using the performance appraisal tool. In this thesis, the category of "measurement of performance" underscored these issues. These measurement challenges are well described in both the appraisal and justice literature (e.g. Levy & Williams 2004; Folger & Cropanzano 1998; Spence & Keeping 2011). According to the results of this study, both the formal pay system and its users were seen as responsible for these challenges. It seemed that the noble ideas of the formal pay system were ruined when individuals could not act according to its principles.

Although individuals were also seen as sources of implementation challenges, implementation errors were rarely seen as intentional. Thus, the individuals were not blamed alone. Instead, the sources of these challenges were seen to be a consequence of a combination of human limitations and conditions required by the formal pay system. Thus, challenges were seen as a consequence of a gap between the expectations of the formal system and capabilities of the individuals.

This conflicting relation between the formal system and individuals challenged the realization of the intended pay system. This is illustrated in Table 43 below. Expectations created by the formal intended pay system are presented in the column on the left and conflicting relations between formal pay system and individuals on the right.

Table 43. Perceptions of an unfair system originating from the conflicting relations between individuals and the pay system

Intended pay system	Realized pay system: Examples of conflicting relations between formal pay system and individuals
Valid performance measures exist	• Unclear appraisal scale and criteria: conflict between assumptions of the pay system (e.g. objective, accurate, consistent measurement) and individuals using it → Individuals will interpret appraisal tool differently – subjective elements will always be present *"Objective measurement is not possible, individuals interpretations and preferences will always influence appraisals"*

The general argument was that due to the qualities of the formal pay system and its users, objective measurement was impossible to conduct. As a consequence, this created experiences of injustice originating from

subjective individuals and "human nature", but at the same time, it questioned the basic assumptions of the formal pay system. In other words, individual level implementation experiences provided "hints" whether the underlying rules of the pay system could ensure fairness or not.

As Folger et al. (1992, 1998) suggested, the effectiveness of performance appraisals has suffered because of the overly rational nature of their conceptualization. As has been suggested (Folger et al. 1992, 1998; Taylor et al. 1995), performance appraisals are often based on a "rational measurement" approach. This approach suggests that performance can be objectively measured and valid performance knowledge can be obtained. However, results of this study suggest that individuals rarely see this as being possible. Due to human nature, there will be always multiple interpretations about the measurement tool. Although good content descriptions or instructions about the measures can alleviate this problem, it is something that will always be present in the appraisal systems. Thus, experiences of injustice resulted when appraisal process did not operate according to the "rational measurement approach" because human beings were involved.

These results have implications for the systemic justice concept in general. If the formal rules of the system are too difficult to implement or based on unrealistic expectations, their implementation at the individual level becomes impossible. Thus, in addition to individual-level source arguments, these implementation problems are also targeted at the formal system itself.

Relation to relationships between individuals

Experienced interaction between individuals also provided hints about fairness of the formal pay system. In the results of this study, the core category of the performance appraisal interview included examples reflecting these issues. The central concern was the relationship between supervisor and employee. At first glance, these challenges reflected mainly individual-level sources: How did the interaction occur, was it polite, was feedback given, but most importantly, was the interaction similar between different employee – supervisor –dyads? The connection between these challenges and interactional justice are easy to see. However, at the same time, individual interactional justice challenges were seen to jeopardize the intended accuracy and the consistency of the pay system in general.

As literature on leader-member exchange (LMX) has shown (e.g. Liden, Sparrowe & Wayne 1997), supervisors establish different kinds of relationships with their subordinates. LMX quality refers to whether the relationship is characterized by openness, affection, trust and respect. This was also recognized by the interviewees in this study. If individuals perceived that the system gave advantages to those with good relationships with their bosses, the system itself was blamed. In addition, individuals were regarded as being inherently different in their interactional and verbal skills (despite the training), and this was seen to influence the appraisal outcomes. In sum, the third type of conflicting relationship was those between individuals. It created individual-level justice arguments but at the same time, challenged the principles of the intended formal pay system.

Examples of this are presented in the Table 44 below. Expectations created by the formal pay system are presented in the left-hand column and conflicting relationships between individuals (harming the intended pay system) are presented on the right.

Table 44. Perception of unfair system originating from the conflicting relationships between individuals

Intended pay system	**Realized pay system:** Examples of conflicting relationship between individuals found in this study
Individual qualities (other than in performance) do not influence appraisal outcome	• Personal differences and interaction: Performance appraisal interview differs between different supervisor and employee dyads due to different skills and wills in the interaction. • Liking: personal relationships between supervisor and employee *"The success of the performance appraisal interview is dependent on the relationship between you and your supervisor"*
	• Feedback and justification: Feedback given/received depends on the match between individuals interacting in the interview *"We get along very well, I can be straight with him about his performance'...I know that there are some employees that have different situation"*

The main threat was that individuals do not have same opportunities in the performance appraisal interview due to their individual differences. It was argued that the quality of interaction and feedback given was influenced by the relationships between a supervisor and an employee. Thus, experiences of injustice originating from the individual-level experiences not only questioned the fairness of that relationship but also the fairness of the underlying rules of the pay system.

These results have implications for the systemic justice concept in general. Systems must be stable enough in order to ensure the consistent and accurate treatment of all involved (see Sheppard et al 1992). If the system cannot be applied consistently for different individuals due to their different relationships, the fairness of the system itself is questioned.

Summary

Based on the results of this study, I make the following *general* suggestions about the systemic justice concept:

I suggest, consistently with previous literature, that the perception of system fairness is affected by the formal system itself, for example, by its codified rules and procedures. However, I also suggest one part of the systemic justice perception is formed when these formal aspects are put into the "test" with the context in three levels:

- ○ Relations between formal system and other systems: The gap between the intended and the realized system when the formal system is interacting with other systems in the organization.

- ○ Relations between formal system and individuals implementing the system: The gap between intended and realized system when the system is implemented by individuals.

- ○ The formal system's relations to relationships between individuals implementing the system: The gap between intended and realized system when the individuals are interacting with each other.

Accordingly, the formal content of the system, but also its relations with the context and individuals, have a bearing on systemic justice perceptions. Although some of these relations are also attributed to individual sources, they all questioned the fairness of the formal system as well.

In the next section I will address another important finding from the results: How formal systems affect individual-level actions. I will particularly discuss the role of discretion, an important issue related to source perception.

9.3 The perception of discretion and justice sources

As the previous chapter showed, the perceptions of the formal systems are difficult to understand without considering the experiences of their implementation. Although the previous chapter was written from the systemic justice point of view, it revealed something important about individual-level justice-related actions as well. It became evident that it is difficult to understand individuals' actions in an organization without considering the formal systems that set boundaries for them.

Although Scott et al. (2009) and Blader & Tyler (2003a) noticed that systemic factors may set boundaries for individuals' justice-related actions, this issue is mainly ignored by the justice literate. However, in the appraisal literature these aspects are discussed when explaining the weak relationship between job performance and ratings of job performance. For example, Murphy (2008 a&b) discussed how a range of situational constraints may distort the appraisals. I will next discuss the findings of this study from this perspective and its relevance to the justice literature.

The results of this study showed that the challenges of performance appraisals and merit pay were related to three categories: measurement of performance, linking pay to performance and the performance appraisal interview. During the analysis, an interesting relationship between different categories was found. Arguments in the linking pay to performance category co-occurred with arguments in the measurement and appraisal interview category. In other words, problems with formal factors (i.e. unfit between pay system structure and its finance) started to reflect to the other actions made in the pay system context.

Because the pay system was based on the idea that the appraisal result directly determined the amount of pay, the problems arose in the case of a low pay budget. Lack of money complicated the appraisal points given and disturbed feedback given about performance. In other words, formal elements inhibited fair actions at the informal level. The whole performance appraisal process was turned upside down when appraisal results were adjusted to money. In particular, the role of supervisors became complicated because they were responsible for the appraisals and related feedback, even though the pay budget dictated the whole process.

The results challenge the well-established finding that outcome favorability and procedural justice often interact with one another to influence

individuals' work attitudes and behaviors (e.g. Brockner & Wiesenfeld 1996). In particular, a high level of procedural justice neutralizes the effects of outcome distribution. This means that high procedural justice can buffer the ill effects of unfavorable outcomes. This finding should be highly important in the appraisal process, suggesting that measuring performance correctly and conducting appraisals in a proper manner would make even the most unfavorable outcome easier to tolerate (e.g. Taylor et al. 1995).

However, in light of the current findings, the interaction between distributive and procedural justice was powerless. According to the results, the role of appraisals decreased because the final pay outcome was not dependent on those procedures. Instead, the pay outcome was determined by the pay budget. Thus, the current results reflect something other than the traditional process-outcome question studied in the justice literature in which supervisors are responsible for the subsequent outcomes. Instead, the results emphasize the power of formal rules operating above the supervisor/employee level processes.

Scott et al. (2009) highlighted the importance of this issue when explaining why managers adhere to or violate justice rules. Their key argument was that managers' justice rule adherence or violation is dependent not *only* on managers' intentions, but also the amount of discretion (Hambrick & Finkelstein 1987) afforded by the justice action involved. It is suggested that different forms of justice (distributive, procedural, interactional) afford managers different amounts of discretion in their execution. It was proposed that the justice dimension differs in how they are constrained by different factors, one central factor being related to the systemic factors. For example, distributive actions are usually more constrained by systemic factors than other forms of justice.

The results of this study reflect the relevance of discretion in the pay determination process. This is illustrated in Figure 9 below. The responsibility of the performance appraisal process (performance measurement and feedback in the performance appraisal interview) was allocated to supervisors (boxes marked with the dotted lines), but at the same time, they lacked the discretion over the final pay outcome. When the pay outcome was direct linked to the appraisal result, the available pay budget began to moderate the relationship between actual performance and the appraisal result.
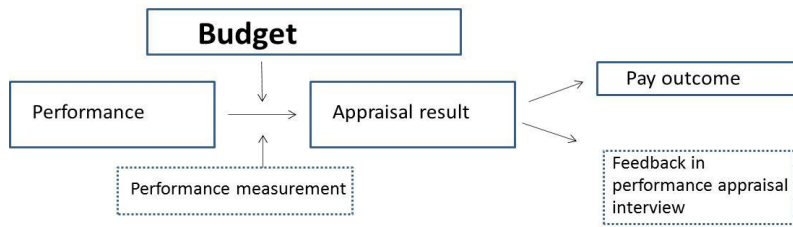
Figure 9. The power relations between different elements of the pay system

This complicated the interaction and feedback in the performance appraisal interview because, at worst, the appraisals did not lead to anything due to the lack of money. In addition, when the pay outcome was no longer based on performance, the link (as well as the fairness) of a specific pay outcome became questionable. Thus, although supervisors were given responsibility and alleged power to conduct appraisals, the real power was dependent on systemic issues, i.e. sufficiency of the pay budget to finance truthful appraisals.

This also has implications for justice source perceptions. According to fairness theory (Folger & Cropanzano 2001), the individual is held accountable for an injustice if he/she could have behaved differently. For example, if supervisors could not behave differently, they cannot be blamed. Thus, the notion of discretion is highly important here (Scott et al. 2009). For example, supervisors are usually those who have to implement systems, despite their personal opinions. In general, the appraisal process is full of factors diminishing the control and accountability of employees and supervisors, including cognitive limitations, the actions of others, and the quality of the measurement tool. These "beyond my control" issues are important when individuals are searching for the party responsible for the injustice they have perceived.

These results also underscore the suggestions involving the three conflicting relationships made in the previous chapter. In order to fully understand the perceptions of experiences of injustice in the organizational context, the careful exploration of both individual- and systemic-level elements must be taken into account. In addition, their interrelations matter: the injustice experience may not just flow from unfair systems or individuals, but rather, from the dynamic interrelations of them all. The perception of discretion

will finally determine which party is seen as being the most responsible for perceived injustice.

9.4 Employees and supervisors' views

This study also explored the employees and supervisors' experiences of injustice in the performance appraisal process. As has been pointed out (Scott 2009; Tyler 2005), justice research has mainly focused on the "receiver" point of view, focusing on targets of fair or unfair actions. What has been ignored is the perspective of the "actors": managers who are responsible of fair or unfair actions (Scott 2009).

The gap in the literature is surprising because it is highly plausible that those who receive the allocations may not have the same perceptions as those who make them. For example, the supervisor may attempt to create equity from the organizations' perspective, but at the same time, it can be perceived as being unfair from the perspective of an individual employee (Cropanzano & Greenberg 1997). Systemic factors discussed in the previous chapter also influence supervisors' decisions - sometimes more than their personal opinions (Scott 2009). Thus, taking account of both sides of the coin can offer an important theoretical and practical contribution in order to fully understand the forces influencing justice perceptions made by different stakeholders in the organization.

The results of this thesis show that justice challenges in the performance appraisal process turned out to be rather similar between employees and supervisors. However, the role differences between "actor" and "receiver" were realized when supervisors emphasized more challenges with measurement, whilst employees' challenges involved the appraisal interview. In a similar vein, the sources of the challenges were emphasized differently by these two groups. Supervisors directed their disappointment more at the formal, system-level issues, while employees emphasized the role of individual-level issues more as a source of challenges. These results suggest that supervisors and employees pay attention to different aspects of the appraisal process due to their different roles in it.

However, a more interesting finding was that the *content* of core categories did not differ very much between supervisors and employees. What can explain this similarity between employees' and supervisors experiences? One explanation can be related to the perceived accountable party for

decisions. As noted before, an authority is held accountable for an injustice if they could have behaved differently (e.g. Folger & Cropanzano 2001). Both groups identified the role of the pay budget that diminished the supervisors' discretion over appraisals and pay outcomes in a similar way. This might have modified employees and supervisors' opinions to be more similar with regard to the pay system. Thus, they had a "common enemy" to blame for the perceived injustice. This also suggested that both employees and supervisors had the same level of knowledge about their pay system.

Results suggest that perceptions between supervisors and employees are dependent on the given pay system. For example, it is probable that viewpoints would differ more in the pay systems where supervisors have more discretion over employees' pay. In these situations, supervisors are seen more easily as being responsible for their own actions and the blame cannot be targeted at more formal issues, such as the pay budget.

9.5 Practical implications

This study offers some important practical implications. In general, the results of this study emphasize the importance of contextual issues in justice perceptions. The results show that perceptions of justice may arise (unintentionally), when the pay system is interacting with the contextual elements. The perception that the pay system fits the organization was crucial with respect to the justice perceptions. Before implementing any formal system, there are some questions that should be answered: Is the pay system suitable for an organization? What kind of implementation expectations does the system set? Can the organization realize those expectations? Are there the required skills and support functions? Is there enough money to realize the system? In sum, results suggest that the success of the pay system depends on three issues: its relationship with other systems and the surrounding environment, its relationship with individuals using it, and its relationship with the interaction required from individuals.

The power relations between different elements must also be considered. In particular, the results of this study showed that the appraisal process can be complicated because the financing of the pay system was insufficient. In addition to many practical problems, this question seemed to be the most fundamental. Next, this specific problem is discussed in more detail.

Performance appraisals are usually implemented for at least two reasons. Firstly, performance evaluation is seen to improve the performance of employees through feedback. Secondly, appraisals are used to make administrative decisions based on the evaluation of performance, such as pay increases. Performance appraisals studied in this thesis were supposed to include both of these aims.

Following the ideas of equity theory (Adams 1963; Deutsch 1975), employees are concerned that the outcome received in the performance appraisal process is representative of their performance. However, the "outcome" and "input" of the performance appraisals can include two different evaluation phases. In other words, the performance/appraisal result -ratio or the appraisal result/pay outcome -ratio (Greenberg 1986). In order for the equity rule to be realized in the appraisal process, these two evaluation phases must be passed: Firstly, the appraisal result and feedback should match with job performance and secondly, administrative decisions must match with the performance appraisal outcome.

Performance appraisals studied in this thesis were planned to include both aspects. The appraisal result was aimed to provide a basis for employee performance feedback as well as to directly influence the employee's merit pay level. However, as the result suggested, the lack of pay budget inhibited both of these aims: The appraisal result given but also feedback and discussion about performance. The problem was not only the insufficient pay budget, but in particular, how the appraisal results were directly linked to the pay level of an employee. This increased the importance of appraisal points given, because every single point could be converted directly to a certain amount of euros. However, when the pay budget involving performance appraisals was insufficient, supervisors had to conduct appraisals according to the available money, not actual employees' performance. As a result, the whole process was perceived to be corrupted, and both supervisors and employees felt it pointless to discuss or give feedback about performance and appraisal results. The problem is illustrated in Figure 10 below. It represents how the pay budget dominated not only pay outcome but also performance rating (appraisal) and subsequent feedback.
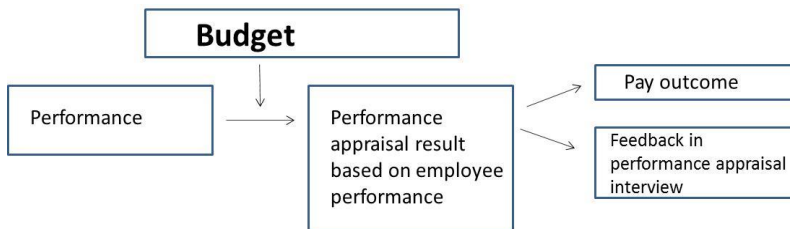
Figure 10. The challenge of the direct link between the performance appraisal result and pay outcome in the case of low pay budget

There seem to be two possible ways of solving the problem if public sector organizations are interested in using appraisal-based pay systems in the future: to ensure either a sufficient pay budget that allows supervisors to conduct truthful appraisals, or to modify the link between the appraisal result and the pay outcome. The first alternative might be quite unrealistic to maintain, in particular in public sector organizations, which usually have fewer opportunities for monetary compensation than private sector organizations. However, the second alternative, modification of the link between appraisals and pay indirect, might provide some comfort for the problem.

An indirect link between appraisal results and pay outcome would provide many advantages, at least in the case of a low pay budget. The role of the appraisal result would be modified from "determinative" to a "guideline", with respect to the subsequent pay outcomes. In other words, the appraisal result would only guide and direct pay decisions, rather than automatically influencing the size of the pay outcomes. For example, there would be no specific pay level that certain appraisal results would ensure (like it is when the appraisal result is directly linked to a certain pay level).

This would ensure that the performance appraisal result and the subsequent performance appraisal interview could better reflect the state of an employee's performance, because supervisors are freed from considering the "cost" of every appraisal point when evaluating employee performance. This would also remove attention from the pay outcomes to the performance appraisal itself, when certain appraisal points could not be converted directly to euros. As a result, performance appraisals based on true performance would ensure meaningful feedback on performance in the appraisal interview. The model based on the indirect link between appraisals and pay outcomes is presented in Figure 11. In this model, the pay budget only moderates the relationship between appraisal results and pay outcome, not the whole appraisal process.
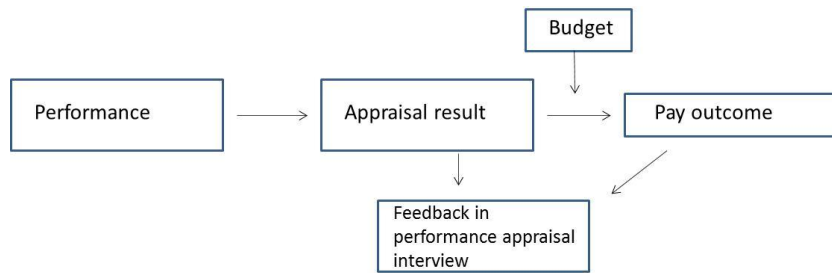
Figure 11. Indirect link between performance appraisal result and following pay outcome

In addition, in the indirect link model, the content of fairness arguments would also be different, compared to the previously discussed direct link model (Figure 110). Although unfairness arguments would still involve the "normal" appraisal issues (for example, lack of performance knowledge, the interpretation of the appraisal scale), the frustration involving the dominance of systemic issues would be lacking. This implies that in the indirect link model, an employee can evaluate the link between performance and the appraisal result and the link between the appraisal result and the pay outcome separately.

For example, an employee can be satisfied with his/her performance appraisal results and enjoy positive feedback, whilst at the same time be dissatisfied with the size of pay rise she/he receives based on the appraisal result. What is important to notice is the target of the dissatisfaction; not the appraisal process or the feedback itself, only the money received. In the previously presented direct link model, dissatisfaction was connected to both processes, the appraisal process itself and the subsequent outcome, because the pay budget dominated both, not just the pay outcome. Thus, in the indirect link model, the appraisal system itself can be evaluated as good and fair, although the pay outcomes may fall below expectations.

Although above described model would not remove the traditional measurement and interactional challenges related to the performance appraisals, it at least gives better opportunities for an attempt to conduct truthful and accurate appraisals. The role of the supervisors would become more real and important when the systemic issues do not prevent them from conducting appraisals. Thus, supervisors would become an increasingly important factor when the fairness of the appraisals is evaluated. This would of course increase the appraisal and interactional skills demanded by the supervisors implementing the system.

9.6 Evaluation of the study

In this section, I will evaluate my study and its limitations. As Dachler (2000) has pointed out, qualitative research finds itself continuously in a defensive stance with "normal" science research quality standards, such as validity, reliability and generalizability (Dachler 2000, 576). It should be borne in mind that these standards only have a particular meaning within the perspective of quantitative methods. When a qualitative study such as this is based on different philosophical assumptions other than quantitative studies, the difference in the evaluation of the study must be acknowledged (see AMJ 2007 "from the editors").

Thus, I will use the substituted criteria for validity and reliability suggested by Lincoln and Cuba (1985), which seem to fit my research approach better than traditional quality standards. They suggest that a qualitative study should be evaluated against its "trustworthiness", which contains four aspects: credibility, dependability, confirmability, and transferability.

In research, **credibility** is achieved when the researcher points out that the research is carried out in such a way that the results are considered plausible. This question is related to data generation and analysis. The credibility of qualitative research is especially dependent on the credibility of the researcher, because the researcher is the instrument of data collection and the center of the analytic process. Thus, credibility requires the reporting of sufficient details about data generation and the process of analysis to permit others to judge the quality of the resulting products (Patton 1990).

Kvale (1986) suggests that credibility of the research requires constant checking and questioning of the choices made during data generation and data analysis. In this study, data generation was planned and carried out by myself and two additional researchers. We shared opinions and viewpoints when we developed the semi-structured interview outline, and when we chose the participants for the interviews. This "peer debriefing" is one of the strategies suggested to improve the credibility of the research (Lincoln & Guba 1985). Other researchers' opinions were very helpful because the researchers were from the same research project and had broad experience with the same kind of data generation. In addition, the organizations studied in this thesis were familiar to all of us beforehand.

I made two preliminary test interviews with my interview outline (one employee, one supervisor). Because we were interested in the employees

and supervisors' experiences in general concerning the performance appraisal process and merit pay, the open-ended, semi-structured interview outline (Patton 1990) seemed to fit this purpose best. The test interview did not require us to change the interview outline (except some minor tailoring of organization specific terms) because open-ended questions created fruitful conversation and the concepts used in the outline were understood by the interviewee in the test interview. It could be argued that the interviews were carried out quite consistently, although in addition to me, two other researchers conducted some of the interviews. We used the semi-structured interview outline described above which broadly covered the areas that were supposed to be relevant to the topic. During the interviewing processes, we constantly discussed our observations and findings, and shared memos written during the interviews. We also discussed and made a special effort to avoid personal biases, such as manipulating the direction of the comments made by the interviewees. Our principle in each interview was to contemplate all themes in the interview outline together with the interviewees.

I did not have any particular research question in mind at the beginning of the data generation phase. Instead, it began to emerge during the data collection. Thus, the interviewees were not asked directly about injustice or justice experiences. However, during the interviews it was noted that employees and supervisors often talked about procedural challenges they had faced in the process of determining the performance-based pay. Consequently, the final research question was formulated during the writing of this thesis. When I started to do my analysis and get into the theories of justice, I noticed that the concepts of procedural and interactional justice seemed to be closely related to the negative experiences interviewees described in the interviews. Hence, the study of injustice rather than the justice experiences seemed to be justified.

The above-mentioned data production with no specific, pre-set target might decrease the credibility of my work. Since then, I have speculated about what kind of results I would have received if I had asked the interviewees directly about their experiences of injustice (for example, "what kinds of experiences of injustice are related to the performance appraisal process" or "How fair do you consider the performance appraisal process and why?"). Instead, the interviewees were free to tell their experiences. On the other hand, this type of question ensured the wider approach to justice construct consistent with the goal of this study. Interviewees were free to bring out the issues they considered were *challenging in the appraisals,* and it was

left to the researcher to connect these experiences to the justice rules. This kind of "indirect" approach gives more space to descriptions and is less evaluative and not so morally charged than explicitly using the word "(un)fair" (see e.g. Colquitt & Shaw 2005).

One important issue is the truthfulness of the statements made by the interviewees during the research. How can the researcher be assured that the interviewees did not lie or made comments based on false belief in the interview (Kvale 1989)? Attempts were made to base the interviews on mutual trust by emphasizing to the interviewees that whatever they shared would remain confidential and anonymous. The interviews in general were conducted in good spirit between the researcher and the interviewees. Thus, we had no reason to believe that interviewees lied in the interviews (even though they could have based their comments on invalid or incorrect beliefs about the pay system).

Because the purpose of this study was to explore the multiple facets of experiences of injustice (by focusing on procedural challenges), the above-mentioned question is a minor problem. As I was interested in experiences related to the performance appraisal process, the false or incorrect comments all said something about the reality experienced by the interviewees. These comments were actually very important to the organization and particularly the pay system practitioners, because they thereby gained access to ongoing experiences, myths and beliefs related to the pay system. Thus, if the interpretation of an employee concerns the production of a possibly invalid understanding, it can still have important consequences such as those outlined by the Thomas theorem of sociology: "If men believe situations as real, they are real in their consequences" (Kvale, 1989).

Another question of credibility concerns how the data analysis was conducted, i.e. the integrity of the analysis (e.g. Patton 1990). This question is related to the **dependability** of the study and the results, which means that an outsider reading this thesis would come to the same conclusions as the researcher (Lincoln & Guba 1985).

Because the starting point in these kinds of studies is usually more in understanding than in generalization, the dependability refers consistency of the research process and the product of the research. Accordingly, the subjective interpretations are always considered to be present, including in the work of the researcher (Shah & Corley 2006). It is accepted that it is nearly impossible to reasonably justify an objective, generalizable

representation of individual subjective experiences. Subjective experiences do not have a fixed content that can be categorized in generalizable ways. It also makes little sense to think of an individual as an author or architect of his or her subjective experience, since the meaning of an experience can only emerge within a social-communicative context, within the social processes of mutual coordination and social accounting among different actors or different communities of practice (Dachler 2000).

In the grounded theory approach, verification is part of theory development and not some final product control (i.e. testing afterwards). Validation is primary built into the research process by continual checking of the credibility, plausibility and trustworthiness of the actual strategies used for coding, analyzing and presenting data (Kvale 1989). Because the validity of data analysis is created in the data analysis phase, it should be sufficiently described.

I made an attempt to make the data analysis (presented in section 7.4) as transparent as possible in order to allow the reader to follow each step of the analysis closely. Every step in the analysis was described and visualized with tables. In addition, the evolution of the analyses from more general questions (content of procedural challenge) to more specific questions (reason for and source of the procedural challenge) was described and justified. When procedural challenges were linked to justice rules from the literature, I presented argumentation involving every category. In addition, all results were described with illustrative examples from the data. Finally, during the whole process of data analysis, I discussed the formed categories, their contents and justifications with my colleagues. Thus, my interpretations and categorizations were constantly questioned by myself and others familiar with the topic.

Thus, I argue that an outsider can agree with my research findings and research process and could even end up with nearly the same categories and conclusions as I did. However, the perfect replication by an outsider from scratch would be nearly impossible.

The above-mentioned concept of dependability is also related to **confirmability**, which refers to the degree to which a researcher can demonstrate the neutrality of the research interpretations through a properly managed audit (Lincoln & Guba 1985). As Patton (1990) pointed out, "neutrality towards findings" means that researcher tries to be non-judgmental and strives to report the findings in a balanced way. I argue that providing a systematic and transparent description of data generation and

data analysis will improve the confirmability of the research process. I have tried to describe each stage relating to data generation and especially data analysis in sufficient detail in order to allow the reader to follow my reasoning and either challenge or agree with my conclusions. Discussions I had about emerging categories with my colleagues during the analysis phase constantly forced me to evaluate my own assumptions and the choices I made. In addition, the tactic referred as "member-checking" (Lincoln & Guba 1985) was used. During the initial project, each of the three participative organizations received a short report of their findings, in which the central challenges of their appraisal and merit pay system (suggested by researchers) were presented. The report was discussed in a feedback session where the representatives of the organizations could freely comment on the findings. This also strengthened the confirmability of my findings.

The final criteria for the trustworthiness of research relates to the **transferability** of the results. Transferability of findings to other situations depends on the degree of similarity between the original situation and the situation to which it is transferred (Lincoln & Guba 1985). As Lincoln and Guba (1985) noted, researcher cannot specify the transferability, he/she can only provide sufficient information that can then be used by the reader to determine whether the findings are applicable to the new situation. I will next discuss the transferability of the findings inside the case organizations, then secondly, the transferability of the findings to other organizations.

As pointed out before, my focus was on the experiences of the employees in three organizations applying merit pay determined through performance appraisals. We selected interviewees according to their professions, in order to produce a rich description about the same phenomenon, i.e. experiences about performance appraisals. Employees and supervisors represented every unit of the organizations. Thus, I could argue that these interviewees at least partially reflected employees and supervisors' experiences related to the pay system in the particular organizations of this study.

However, I admit that these results are very context-specific and experiences could be different in other organizations. Performance appraisals are always implemented in a specific organization with a specific culture, values and procedures which also create the grounds for the experiences of injustice. However, I argue that similar experiences can be found in every merit pay and appraisal system, although there are

variations according to the specific pay system features and organizational context (e.g. structure of the pay system, line of business, organizational size, accumulated experience with the appraisals, procedures used and the demographic factors of the personnel).

9.7 Suggestions for future research

The results of this study emphasize the role of *relationships* in shaping and forming justice experiences in the pay and appraisal context. This finding has important suggestions for future justice studies made in any systemic context. A fair system might change to an unfair one when the system is not in congruence with other systems or agents in the organization. For example, outdated criteria in job evaluation might value jobs other than those currently needed in the organization. In addition, sometimes the formal structures can dominate the informal actions made by a single agent. For example, the supervisor doing the job evaluation must follow the outdated criteria although he/she knows that the following outcome is not fair. Finally, individual-level actions give hints about systemic justice. For example, if the required qualifications in the promotion system are defined as being too blurred, those favored by the boss might gain an advantage over those most qualified.

This implies that future research should not only focus on formal or informal sources of justice, but in particular, their reciprocal relations. At a more general level, this suggests that justice experiences cannot be understood without taking into account the context and situational factors influencing the behaviors and attitudes of individuals. The concept of "discretion" should also be noted, because it helps to explain the consequences of systemic issues in individual-level actions. To gain rich data from these issues might require researchers to utilize other types of data than those traditionally used in justice research.

Cropanzano and Greenberg (1997) emphasized the importance of context when they recommended carefully tailoring measures of procedural justice to the specific settings in which they are being assessed: "What makes a set of questions appropriate in one context may not make them equally appropriate in another. Questions about justice should be carefully matched to the context of interest" (Cropanzano-Greenberg 1997, 19). Even though the same general justice principles may be relevant in all organizational

environments, their relative weights and specific forms are shaped by the demands of the contexts in which they operate. Similarly, Cohen-Charash and Spector (2001) suggested the importance of the context in terms of justice perception.

Even though the previous literature has emphasized that fairness and justice judgments should be treated with strong weight on subjectivity (e.g. Van den Bos 2005, 278-279) and context-sensitivity (Cropanzano & Greenberg 1997; Cohen-Charash & Spector 2001), the traditional methodological choices (i.e. quantitative survey methods) have not followed this idea. Conversely, the social contexts as well as the explanations concerning survey responses are usually excluded from the examination. Respondents are made to choose from among the answer options determined by the researcher. This may create a danger that the research will focus on matters that are important according to the current theories but have little to do with the day-to-day experience of procedural justice (Taylor 2001; Saunders 2006; Rupp 2011). This might also prevent new ideas from emerging.

This study took the qualitative approach to justice construct in order to achieve a more profound picture about phenomenon in the pay system context. The results of this study reinforce the assumptions already known in the field, but also new, interesting findings were found. I suggest that some of the results would have been difficult to capture with only the quantitative measures or without sufficient understanding about organizational context (e.g. Fortin 2010). As Sheppard et al. (1992) noted, organizational systems are sometimes difficult to identify directly, particularly those who are not members of the organization not having experience of the decisions mechanisms. I suggest that interview method provided a good opportunity for creating a deeper understanding of the factors influencing perceptions of justice in some specific context.

Methodological issues also influenced the conclusions of the study. For example, if a survey method had been used, the central challenge identified in this thesis – the link between appraisals and pay *in the case of* a limited pay budget – could easily go unnoticed. Survey results might have identified a great dissatisfaction related to the pay system, the procedures used and the pay outcome. The researcher might misleadingly have thought that the problem could be solved by increasing training for supervisors, modifying the pay system's measures or distributing bigger pay rises to employees. However, the actual disappointment was created by contextual

factors: the mismatch between the pay system and its context that distorted both the outcomes and the available procedures used by supervisors.

Thus, using the inductive qualitative approach provided a more profound understanding of justice/injustice in some specific context, in this case, the pay system and performance appraisal process. In addition, the different dynamics and contradictions in the performance appraisal process were easier to understand because the reasons for and the sources of the experiences of injustice were described on a more concrete and vivid level. Consequently, these findings concur with a humble number of researchers (Narcisse & Harcourt 2008; Taylor 2001; Harlos & Pinder 1999; Mikula 1986; 1990; Fortin 2010) that future justice studies should use these "non-traditional" methodologies more often to gain a fuller picture of the factors associated with justice experiences.

9. Discussion and conclusions

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Appendices

APPENDIX 1: General interview outline for employees and supervisors

Questions are modified according to the status of the interview. Employees are asked about their performance appraisals with their supervisor and supervisors are asked about their performance appraisal with their employees.

1. Background information

- Name
- Duration of employment in organization
- Job tasks and title
- Organizational unit
- Age
- Participation times in performance appraisals
- Name of the supervisor/number of employees

2. Opinions about performance appraisal and merit pay system

For example:
- Formal structure of performance appraisal interview and other instructions; criteria, measures
- Instructions related to performance appraisals
- Documents and forms for appraisals
- Decision-making rules and procedures

3. Experiences about performance appraisal process

For example:

- Personal preparation for performance appraisals
- Contents (what did the performance appraisal consist of?)
- How different parts of performance appraisal were carried out (procedures, place, duration, etc.)
- Performance feedback
- Documentation of agreed issues

- General experiences (what was positive/what was challenging?)
- Good/bad procedures concerning performance appraisals

4. Development suggestions

- How to improve performance appraisals

APPENDIX 2: Procedural challenges identified, their sources and connections to the justice rules

E=Employees S=Supervisor	Procedural justice						Interact. justice		Sources	
Identified categories	Consistency	Accuracy	Bias suppression	Correctability	Representati-veness	Ethicality	Interpersonal justice	Informational justice	INFORMAL	FORMAL
1. MEASUREMENT OF PERFORMANCE										
Unclear appraisal scale										
Lack of instructions provided by pay system administration	E S	E S								ES
Inherent subjectivity of appraisal scale	E S	E S						S	E S	ES
Lack of instructions in use of scale	S	S								S
Unclear performance criteria										
Lack of instructions provided by admin	E S	E S								ES
Inherent subjectivity of criteria	E	E							E	E
Liking										
Between group members	E	E	E			E			E	E
Between groups	S	S	S			S			S	S
Performance knowledge										
Distance	E S	E S								ES
Expertise	E S	E S								ES
Experience	E S	E S								ES
Supervisor's time management	E	E							E	E
Number of employees	S	S								S
Unclear decision-making process	S	S								S
2. LINKING PAY TO PERFORMANCE										
Distorted link between appraisals and pay										
Limited pay budget and points		E S				E S	E			ES
Restrictive instructions		E				E	E			E
Calibration of the results		E				E	E			E
CONTINUED…										

...CONTINUED										
E=Employees S=Supervisor	Procedural justice						Interact. justice		Sources	
Identified categories	Consistency	Accuracy	Bias suppression	Correctability	Representati-veness	Ethicality	Interpersonal justice	Informational justice	INFORMAL	FORMAL
3. PERFORMANCE APPRAISAL INTERVIEW										
Personal differences and interaction										
Interactional skills of employees	E	E							E	E
Will and ability of the supervisor	E	E							E	E
Dialogue	E	E		E	E		E		E	E
Differences in interaction	S	S							S	S
Feedback and justification										
Amount and quality of feedback	E						E		E	E
Money, points and feedback							E	E S		E S
Difficult situations	S						S		S	S
Amount of feedback	S							S	S	

APPENDIX 3. Measures for systemic justice / formal levels of justice

1) Beugré and Baron (2001): Systemic justice

Items Used to Measure Justice Components

Distributive justice
Overall, the rewards I receive here are quite fair.
My most recent raise gave me the full amount I deserve.
My pay is appropriate, given my performance.
My pay is appropriate, given my responsibilities.
I am fairly rewarded, taking into account the amount of education I have had.
I am fairly rewarded, considering the amount of training I have had.
I am fairly rewarded, in view of the experience I have.
I am fairly rewarded for the amount of effort I put forth.
I am fairly rewarded for work I have done well.
I am fairly rewarded, considering the level of stress in my job.

Procedural justice
Objective procedures are used in evaluating my performance.
My input is considered in evaluating my performance.
My supervisor gets input from me before a recommendation.
My performance evaluation is based on accurate information.
My input on what I could do to improve company performance is solicited.
I receive feedback from my supervisor that helps me learn how well I am
    doing.
Procedures used in this company are fair.
With my supervisor, I resolve difficulties about my duties and
    responsibilities.
In making decisions in this company, objective procedures are followed.

Interactional justice
When decisions are made about my job, my supervisor treats me with
    kindness and consideration.
I am treated with respect and dignity in this company.
When decisions are made about my job, my supervisor is sensitive to my
    personal needs.
When decisions are made about my job, my supervisor shows concern for
    my rights as an employee.
Concerning decisions made about my job, my supervisor discusses their
    implications with me.
My supervisor offers adequate justification for decisions made about my job.

(table continues)

Table 1 (Continued)

When making decisions about my job, my supervisor offers explanations that make sense to me.

My supervisor explains very clearly any decisions made about my job.

I have friendly relations with my supervisor.

My supervisor is completely candid and frank with me.

Systemic justice

Overall, all decisions in this company are fair.

Fairness is an important objective in this company.

In this company, job decisions are made in an unbiased manner.

In this company, all employee concerns are heard before job decisions are made.

In this company, job decisions are based on accurate information.

In this company, job decisions are based on complete information.

In this company, additional information about job decisions is provided when requested by employees.

In this company, all decisions are applied consistently across all affected employees.

The culture of this company encourages fairness.

In this company, disciplinary actions are always fairly implemented.

In this company, employees are allowed to change job decisions.

The compensation system of this company is fair.

2) Erdogan, Kraimer and Liden (2001): System procedural justice / supervisor procedural justice

TABLE 1
Factor Analysis of Items Measuring Procedural Justice

Item	Factor Loadings Factor 1	Factor 2
1. The performance appraisal system that is being used in our bank is fair.	.151	.728
2. Having a high or low score from this system isn't related to actual performance. (R)	-.007	.753
3. The performance appraisal system in our bank is able to differentiate high performers from poor performers.	.257	.750
4. My supervisor uses the performance appraisal to reward the employees he/she likes. (R)	.837	.131
5. My supervisor uses performance appraisal system as a means to threaten employees. (R)	.838	-.002
6. During performance appraisal, my supervisor evaluates my personality instead of my performance. (R)	.481	.335
7. I don't think my supervisor will give me a high score no matter how good my performance is. (R)	.576	.236
8. I think my supervisor uses performance appraisal to punish the employees he/she doesn't like. (R)	.799	.003
9. I believe my supervisor really tries to conduct a fair and objective appraisal.	.743	.121

NOTE: n = 93. Factor analysis was conducted after items were reverse scored (R).

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3) Byrne (1999); Rupp & Cropanzano (2002): Organizational procedural and interactional justice / supervisory procedural and interactional justice

Examples of the measures used:
Organizational procedural justice
- The organization's procedures and guidelines are very fair
- I can count that my organization to have fair policies

Supervisory procedural justice
- Where I work, my supervisor's procedures and guidelines are very fair
- I can count that my supervisor to have fair policies
- The procedures my supervisor uses to make decisions are not fair

Organizational interactional justice
- I am kept informed, by my organization, of why things happen the way they do
- My organization decisions are made out in the open so that everyone always knows what is going on

Supervisory interactional justice
- Whether right or wrong, my supervisor always explains decisions to me
- My supervisor keeps me informed of why things happen the way they do

4) Blader and Tyler (2003b): Four component model

Quality of Decision-Making Procedures
Formal
• The rules dictate that decisions should be fair and unbiased.
• The rules and procedures are applied consistently across people and situations.
• The rules ensure that decisions are made based on facts, not personal biases and opinions.
• The rules and procedures are equally fair to everyone.
Informal
• My supervisor's decisions are consistent across people and situations.
• My supervisors' decisions are made based on facts, not their personal biases and opinions.
• My supervisor's decisions are equally fair to everyone.
Quality of Treatment
Formal
• The rules lead to fair treatment when decisions are being made.
• The rules lead to fair treatment when decisions are being implemented.
• The rules require that I get an honest explanation for how decisions are made.
• My views are considered when rules are being applied.
• The rules ensure that my needs will be taken into account.
• I trust _____g to do what is best for me.
• The rules respect my rights as an employee.
• The rules respect my rights as a person.
• I am treated with dignity by _____.[g]

- _____ –[g] follows through on the promises it makes.
- _____ [g] really cares about my well-being.
- _____ [g] cares about my satisfaction.

Informal [e]

• My supervisor treats me fairly when decisions are being made.
• My supervisor treats me fairly when decisions are being implemented.
• My supervisor listens to me when I express my views.
• My supervisor usually gives me an honest explanation for the decisions he/she makes.
• My supervisor considers my views when decisions are being made.
• My supervisor takes account of my needs when making decisions.
• I trust my supervisor to do what is best for me.
• My supervisor respects my rights as an employee.
• My supervisor respects my rights as a person.
• My supervisor treats me with dignity.
• My supervisor follows through on the decisions and promises he/she makes.
• My supervisor really cares about my well-being.
• My supervisor cares about my satisfaction.

a. 1 = rarely, 6 = very often
b. 1 = not fair at all, 6 = very fair
c. 1 = not at all, 6 = definitely
d. 1 = none, 6 = a lot
e. 1 = strongly disagree, 6 = strongly agree
f. 1 = not at all, 6 = very
g. The organization's name was placed in these slots but have been removed here for reasons of confidentiality.

5) Brown, Bemmels & Barclay (2010): Policy justice

Policy Justice Items (The following items refer to the collective agreement, to what
extent does/did the collective agreement:)
1. ensure justice for everyone?
2. meet your expectations?
3. prevent you from getting justice?

Procedural Justice Items (The following items refer to the procedures used to arrive at
the decision. To what extent:)
1. were the procedures applied consistently?
2. were the procedures free of bias?
3. were the procedures based on accurate information?
4. were you able to express your views and feelings during the procedures?
5. did you have an influence over the decision arrived at by the procedures?
6. did the procedures uphold your ethical and moral standards?

Distributive Justice Items (The following items refer to the decision. To what extent:)
1. did the decision reflect your position?
2. was the decision appropriate?

3. was the decision justified?
4. was the decision fair?

Interpersonal Justice Items (The following items refer to your company/union. During
the grievance procedure, to what extent did your company/union)
1. treat you in a polite manner?
2. treat you with dignity?
3. treat you with respect?
4. refrain from improper remarks or comments?

Informational Justice Items (The following items refer to your company/union. During
the grievance procedure, to what extent did your company/union)
1. communicate candidly with you?
2. communicate details in a timely manner?
3. tailor the communications to your specific needs?
4. explain the procedures thoroughly?
5. provide reasonable explanations regarding the procedures?

- Note: All items use a 5 point scale with anchors of 1 = to a small extent, 5 = to a large extent.

Perceptions of justice are crucial when individuals are evaluating the success of merit pay and performance appraisal systems. This thesis sheds light on these issues by focusing on employees' and supervisors' injustice experiences in the merit pay context. Results show that injustice experiences are related to performance measurement, the link between pay and performance, and the performance appraisal interview. Supervisors are more concerned about performance measurement challenges whereas employees worry more about the interactional issues in the performance appraisal interview. Results also reveal that sources of injustice experiences are difficult to identify unambiguously. This suggests that more attention should be paid on relations between pay system and its formal and informal context in order to decrease experiences of injustice.

BUSINESS +
ECONOMY

ART +
DESIGN +
ARCHITECTURE

SCIENCE +
TECHNOLOGY

CROSSOVER

DOCTORAL
DISSERTATIONS