Performance appraisal fairness, leader member exchange and motivation to improve performance: A study of US and Mexican employees

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\textbf{A R T I C L E   I N F O}

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\textbf{A B S T R A C T}

In this research, we examine the relationship between three dimensions of performance appraisal fairness (distributive, procedural and interactive fairness), leader-member exchange (LMX) and motivation to improve performance among a sample of US and Mexico employees. We hypothesized that all the fairness dimensions will be positively related to LMX and that LMX will be positively related to motivation to improve performance for employees in both countries. Further, we proposed that national culture will moderate these effects such that, the relationships between fairness dimensions and LMX, as well as between LMX and motivation to improve performance will be stronger for the employees in the US. A survey of employees in the US (N = 219) and Mexico (N = 203) provided support for most of the hypothesized relationships. We discussed implications of this research and the universality of the relationships between fairness, LMX, and motivation to improve performance across the two countries.

\textbf{1. Introduction}

Due to the emphasis on performance management (Buchner, 2007; Pulakos, 2009), performance appraisal is increasingly regarded as a tool for effectively managing employee performance. In a review of performance appraisal research, DeNisi and Pritchard (2006) suggest that the ultimate goal of performance appraisal should be to motivate employees to improve their performance. However, past appraisal research has predominantly emphasized on psychometric issues, which has distracted away from motivational aspects of how performance appraisals can be translated into improved performance (Aguinis & Pierce, 2008; DeNisi & Pritchard, 2006; Rynes, Colbert, & Brown, 2002). From a motivational perspective, a key outcome of performance appraisal is employee motivation to improve future performance (Jawahar, 2010; Maurer & Palmer, 1999; Pichler, 2012). Two underlying mechanisms that merit attention in regard to the motivation to improve performance are the perceptions of LMX and fairness (e.g., Masterson, Lewis, Goldman, & Taylor, 2000).

First, from a leadership perspective, LMX, defined as the quality of exchange between supervisors and their subordinates, is suggested to be an important source of motivation to improve performance (Erdogan, 2002; Graen & Uhl-Bien, 1995; Klein & Kim, 1998). Second, it is important to understand how performance appraisal processes impact the LMX quality, which further influences employee motivation to improve performance (Erdogan, 2002; Masterson et al., 2000). The dynamics of a performance appraisal process involves dyadic exchanges between supervisors and their subordinates, and thus, can potentially influence the quality of the LMX as subordinates evaluate the fairness of the process (Elicker, Levy, & Hall, 2006; Erdogan, 2002).

Research on fairness has established that it consists of three distinct dimensions: distributive, procedural and interactive fairness (Cohen-Charash & Spector, 2001). Only a handful of studies have examined the relationship between fairness and LMX (e.g., Haynie, Cullen, Lester, Winter, & Svyantek, 2014; Tziner, Felea, & Vasiliiu, 2015) and research on this relationship has focused on interactive fairness perceptions (Erdogan, 2002; Masterson et al., 2000). There has been very little research on the relationship between the other two dimensions of fairness (distributive and procedural fairness) and LMX in a performance appraisal context. Addressing this research gap is particularly important given that employees primarily rely on their perceptions of fairness when evaluating their organizational situation (Hooper & Martin, 2006). Fairness perceptions likely drive much of employee behaviors as described in the equity theory of motivation (Adams, 1963) which provides even further reason to include fairness in a model attempted to determine motivation to improve performance.

This research is positioned to address some of the limitations in
current research by examining the role of LMX as a mediator of the fairness and motivation to improve relationship. Our research contributes to the LMX and performance appraisal empirical and theoretical literature in several ways. First, we focus on the relationship between all dimensions of fairness and LMX. Previous research in the context of performance appraisal has focused on only interactive fairness. We believe that our focus on all the dimensions make an important contribution to the literature as procedural and distributive fairness dimensions are important facets of performance appraisal process. Second, we expand the criterion domain of LMX by examining the relationship between LMX and motivation to improve performance. Although previous studies have extensively examined the relationship between LMX and job performance (Ilies, Nahrgang, & Morgeson, 2007), there has been very little research conducted on the relationship between LMX and employee motivation to improve performance (Klein & Kim, 1998). Several theoretical models have suggested that the ability to motivate employees is one of the key intermediary outcomes of LMX (Erdogan, 2002; Liden, Sparrowe, & Wayne, 1997), the current research extends our knowledge of LMX literature by empirically evaluating this relationship.

Third, we examine these relationships in two different countries: Mexico and the US. Organizational researchers have always called for extending the research domain outside the familiar research grounds of the US and Europe. The research models developed in the US, which are characterized by individualism and low power distance, may not be applicable to other cultural contexts such as Mexico (Aycan et al., 2000; Fletcher & Perry, 2001; Hofstede, 2001; Miller, Hom, & Gomez-Mejia, 2001). Therefore, it is important to examine the validity of research models, which are grounded in US work values, in cultural contexts outside of the US (Chiang & Birch, 2010). Although, in recent years, there has been considerable research interest in China and other Asian countries (e.g., Meng & Wu, 2015), research in the Latin American contexts is still relatively neglected (Davila & Elvira, 2007). In a review of research agenda for Latin America, Vassolo, De Castro, and Gomez-Mejia (2011), lamented that empirical research on important management processes in the cultural context of Latin America is ‘almost nonexistent’. This omission is especially glaring considering the fact that Latin America represents the second most important emerging economic region in the world (Vassolo et al., 2011). It is especially important for researchers to look at Latin American countries such as Mexico when making cross-cultural comparisons with the US. Mexico and the US not only share a border; they are also major trading partners. It is beneficial for managers to understand both similarities and differences in what motivates people to improve performance when considering US and Mexico employees.

Mexico, is an integral part of Latin America (Gwynne & Cristobal, 2014), and being an important trade partner of US under the North American Free Trade Agreement (NAFTA) agreement, is home to numerous US-based and foreign-based manufacturing firms (Posthuma, Joplin, & Maerzt, 2005). As an important trade partner of US, with US-Mexico trade totaling an estimated value of $583 Billion in 2015 (Office of the United States Trade Representative), it is important to understand the generalizability and applicability of US-based theories and management constructs in Mexican context. By using country as a proxy, in the examination of the relationship between fairness, LMX and motivation to improve performance, our study enhances the understanding of cross-cultural differences in important management processes such as leadership and performance appraisal across two countries. Our choice of using country as a proxy to measure national culture is motivated by two reasons. First, within the domain of cross-cultural research a vast majority (79%) of studies have reported to have used country as proxy to measure national culture (e.g., Richter et al., 2016; Schaffer & Riordan, 2003). Second, the use of country as proxy is also advantageous, as it is not subject to common method bias, which can creep into individual reporting of cultural orientations (Spector, Liu, & Sanchez, 2015).

In summary, the current research extends literature on performance appraisal by addressing important gaps in our understanding of how fairness and leadership processes can influence employee motivation to improve performance. By extending this research to Mexican cultural context, our research also contributes to generalizability of research to other cultures.

2. Theoretical foundations and literature review

2.1. Theoretical foundations

The theoretical basis for the model shown in Fig. 1 is based on LMX theory (Graen, Liden, & Hoel, 1982) and cross cultural perspectives (Hofstede, 2001). LMX theory provides a unique framework in the assessment and evaluation of the impact of supervisor-subordinate relationships (Gerstner & Day, 1997; Wang, Xu, Liu, & Jiang, 2015; Williams, Scandura, Pissarris, & Woods, 2016). One of the basic premises of LMX theory is that there are differences in the quality of relationships the leaders enjoy with their subordinates (Dansereau, Graen, & Haga, 1975; Graen et al., 1982; Liden & Graen, 1980). Consequently, this relationship quality acts as a chief determinant of outcomes at the individual, group, and organizational levels (Gerstner & Day, 1997; Graen & Uhl-Bien, 1995). Put differently, higher-quality exchange relationships between leaders and followers are associated with more positive outcomes and fewer work-related problems. Incorporating a relationship-based approach to leadership, LMX theory stresses on the importance of mature and healthy leader-follower relationships and the impact such relationships can have on employee behavioral and attitudinal outcomes (Graen & Uhl-Bien, 1991; Wang et al., 2015). Further, from a self-determination perspective, perceptions of fairness and LMX can contribute to intrinsic motivation to improve performance as fairness is considered as a fundamental human need and LMX can contribute to better relatedness (Deci & Ryan, 1985; Hartmann & Slapničar, 2012). In addition, motivation crowding theory (Frey, 1997; Jacobsen & Andersen, 2014) also predicts that employees may respond better to intrinsically motivating factors such as fairness and leader member exchange for better performance rather than extrinsic rewards.

Within LMX literature there has been a lot research done with respect to antecedents and outcomes of LMX but most of the research is limited to contiguous US. Also, with respect to the antecedent or criterion side of LMX, in most cases, the influence of dyadic exchange processes on LMX has been relatively ignored (Henderson, Liden, Glibokowski, & Chaudhry, 2009). Similarly, with respect to the outcome side of LMX too there is a dearth of research examining the influence of internal fairness.
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