

Compensation Justice and Psychological Contract as Antecedent for Engineer's Turnover Intention

Heru Kurnianto Tjahjono* and Edwin Sanny Ekaputranto

Human Resource Management, Muhammadiyah University of Yogyakarta, Indonesia

Abstract

Turnover intention rate among Indonesian engineer is relatively high. The purpose of this research is to examine the effect of organizational justice and psychological contract toward turnover intention. There are some antecedents of turnover intention in this research. They are distributive justice, procedural justice, psychological contract and job satisfaction.

139 engineers from 5 companies are involved as respondent. Data were analyzed using Structural Equation Modeling (SEM). Results show that distributive justice in compensation and psychological contract have positive effect on turnover intention, while procedural justice does not influence job satisfaction and turnover intention. Another result also shows that job satisfaction does not have influence turnover intention. Therefore, job satisfaction is not considered as mediating variable

Keywords: Turnover intention; Distributive justice; Procedural justice; Psychological contract; Job satisfaction

Introduction

Indonesian government has a mission to encourage the construction services sector in infrastructure development. A high demand for infrastructure development in Indonesia makes the national construction market in a steady growth from year to year. The increasing tendency of the construction market growth is also simultaneous with the increasing competition among construction service providers. A healthy competition in the construction services business can have a positive impact both for the company and for the project owner. Companies will put efficiency as a mark on competitiveness, while project owners will get a more reasonable price in good quality work.

Unhealthy competition with building planner consultants in the construction services industry will have a negative impact on the company, both for the company and the service users which in turn will affect employees who work in the company. Negative impacts resulting from unhealthy competition such as excessive workloads, unfair compensation, even breach of work agreement by company (violation of psychological contract). Negative impacts can lead to conflicts between companies and employees that cause employee dissatisfaction. Furthermore, employee dissatisfaction can trigger employee's turnover intention and a decision to quit. According to Tjahjono [1,2] and Colquitt et al. [3,4] there are two important dimensions in organizational justice which are distributive justice and procedural justice. Both have a specific influence on employee attitudes and behavior. Tjahjono [5] noted that the value of justice is a very important element in managerial decision-making. The decision will affect the employee's perception toward organization. Employee perceptions that arise can be in the form of a fairness and unfairness. Unfairness perception poses a number of negative impacts [6-10]. Moreover, Rousseau [11] stated that psychological contracts arise when employees believe that their obligations to the organization will be comparable with the rights provided by organization. The essence of the psychological contract is the employee's belief that organization will keep their promises and commitments. The existence of a breach of psychological contract leads to various negative reactions of employees.

Turnover intention can be influenced by job satisfaction [12,13]. There is a negative relationship between job satisfaction and turnover intention, by means that the greater job satisfaction, the lower turnover intention and vice versa.

Hence, it can be concluded that employee satisfaction of depends on difference level between what is expected and what is received. When employees feel the company/organization does not keep promises and obligations so that it cannot meet their expectations it can be said there has been a breach of psychological contract.

Literature Review

Sweeney and McFarlin [14] stated that there are two important dimensions of organizational justice: distributive justice and procedural justice. This view is supported by empirical studies of justice and its impact on organizational outcomes. Both have a specific influence on employee attitudes and behavior. The concept of a two-factor model developed by Sweeney and McFarlin [14] suggests that distributive justice and procedural justice exert different influence on individual outcomes and organizational outcomes [4,15-18]. Distributive justice has a significant influence on individual outcomes, whereas procedural justice has a significant influence on organizational outcomes [5,19,20].

The psychological contract violation is defined by Rousseau [11] as a failure of the company to fulfill the obligations that should be given to employees. Or in other words, a psychological contract violation is a situation experienced by an employee if they do not receive a reward as promised [21].

Moreover, job satisfaction and dissatisfaction can be understood with some theories about job satisfaction. One theory that discusses job satisfaction is the theory of justice. Researchers in this study use compensation justice theory to explain the relationship between perceptions of compensation and job satisfaction.

Anwar et al. [6] explained that turnover intention is the desire to move, however, not yet reached the stage of really quit from an

***Corresponding author:** Heru Kurnianto Tjahjono, Professor, Human Resource Management, Universitas Muhammadiyah Yogyakarta, Indonesia, Tel: +62-274387656; E-mail: heruutilitas@yahoo.com

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organization. The existences of turnover intention will likely lead to negative attitudes which can have a negative impact. These attitudes are usually shown with less enthusiasm with work, feeling unhappy with their work, often complaining, avoiding their responsibilities, and looking for more profitable work alternatives.

Hypotheses

Based on literature review and previous research, hypotheses in this research are:

Hypothesis 1: Compensation distributive justice has negative impact on pada turnover intention

Hypothesis 2: Compensation procedural justice has negative impact on turnover intention

Hypothesis 3: Psychological contract violation has positive impact on turnover intention.

Hypothesis 4: Compensation distributive justice has negative impact on job satisfaction

Hypothesis 5: Compensation procedural justice has negative impact on job satisfaction

Hypothesis 6: Psychological contract violation has negative impact on job satisfaction.

Hypothesis 7: Job satisfaction negatively related to turnover intention.

Method

Research was conducted at INKINDO member planning Consultant Company in Indonesia. Data collection was conducted by using survey method by filling out questionnaire that is delivered directly to the engineers. The sampling method used convenience sampling technique-based on easy to get respondent. Respondents of this research were 175 engineers at consulting company planner whose are architect, constructor, and engineer.

The questionnaire was created using a 1 to 5 Likert scale. Psychological contract breach is a situation experienced and experienced by an employee if they do not receive a service reward that matches what the company promised. The research instrument is measured 5 indicators, used refers to Robinson and Morrison [13] in Suazo [21]

Compensation distributive justice is a justice perception which is dealing with the resource allocation as well as the criteria used in determining the employee's compensation allocation. This variable is measured by 5 indicators which have been developed by Tjahjono [22].

Compensation procedural justice is a justice perception of decision making in an organization [23]. This variable is measured by 7 indicators which have been developed by Tjahjono [22].

Job satisfaction is a positive emotional state that results from the evaluation of one's work experience. Job satisfaction variable describes the conformity of expectations that arise with the rewards earned from his work [24]. This variable is measured by 4 indicators which have been modified by Tjahjono [1].

Turnover intention is tendency or intention of the employee to quit his or her work voluntarily at his/her own option [25]. This variable is measured by 4 indicators which have been modified by Anwar et al., [6].

Result and Discussion

The questionnaire returned as many as 161 questionnaires from the respondents, so the response rate is 92%. However, only 139 questionnaires completely filled out and can be analyzed further. The results show that all instruments are valid and reliable.

Descriptive data indicates that respondents in this study dominated by men as much as 78.42% while the rest are female respondents. Respondents' age ranged from 20-30 years is 66.19%. Most of the educations of respondents are Bachelor degrees which are 76.26%, followed by diploma 18.71% and Master Degree as 5.04%. Most of respondent with Diploma degree currently are studying undergraduate colleges to support their careers. A total of 48.92% of respondents worked for 0-4 years. 20.86% of them worked for 4-7 years and 17.27% of respondents worked for more than 10 years. While 12.95% of other respondents worked for 7-10 years.

The goodness of fit test (RMSEA, CMIN/DF) showed that the model can illustrate well observed phenomena (Table 1).

As scale used base on 1 to 5, the average engineer's response to distributive justice is 3.45; procedural justice is 3.20; psychological contract breach is 2.93; job satisfaction is 3.15 and turnover intention is 2.86 (Table 2) (Figure 1).

Distributive justice and procedural justice toward turnover intention

The results of this study indicate that distributive justice has a negative effect on turnover intentions. This indicates that employees in a building planning consultant have a desire to leave the company if they receive unfair treatment in relation to the distribution of compensation they received. The results are in line with previous research that distributive justice negatively affects behavioral outcomes [10]. However, the results of this study do not show significant results

Goodness of fit index	Cut off value	Results	Criteria
Chi-square (χ^2)	< 272,836	423,066	Not good
Sig. probability	$\geq 0,05$	0,000	
RMSEA	$\leq 0,08$	0,078	Good
GFI	$\geq 0,90$	0,813	Marginal
AGFI	$\geq 0,90$	0,761	Marginal
CMIN/DF	$\leq 2,00$	1,800	Good
TLI	$\geq 0,95$	0,927	Marginal
CFI	$\geq 0,95$	0,937	Marginal

RMSEA: Root Mean Square Error of Approximation; GFI: Goodness of Fit Index; AGFI: Adjusted Goodness of Fit Index; TLI: Tucker Lewis Index; CFI: Comparative Fit Index; DF: Degree of Freedom.

Table 1: Goodness of fit index test.

Variable	Estimate	SE	CR	P
Distributive justice → Turnover intention	-0.167	0.083	-2.017	0.044
Prosedural justice → Turnover intention	-0.078	0.113	-0.684	0.494
Psychological contract breach → Turnover intention	0.207	0.089	2.329	0.020
Job satisfaction → Turnover intention	-0.003	0.103	-0.030	0.976
Distributive justice → Job satisfaction	0.344	0.101	3.413	
Procedural justice → Job satisfaction	0.043	0.156	0.274	0.784
Psychological contract breach → Job satisfaction	-0.319	0.109	-2.917	

S.E: Standard Error; CR: Critical Ratio; P: Probability.

Table 2: Results.

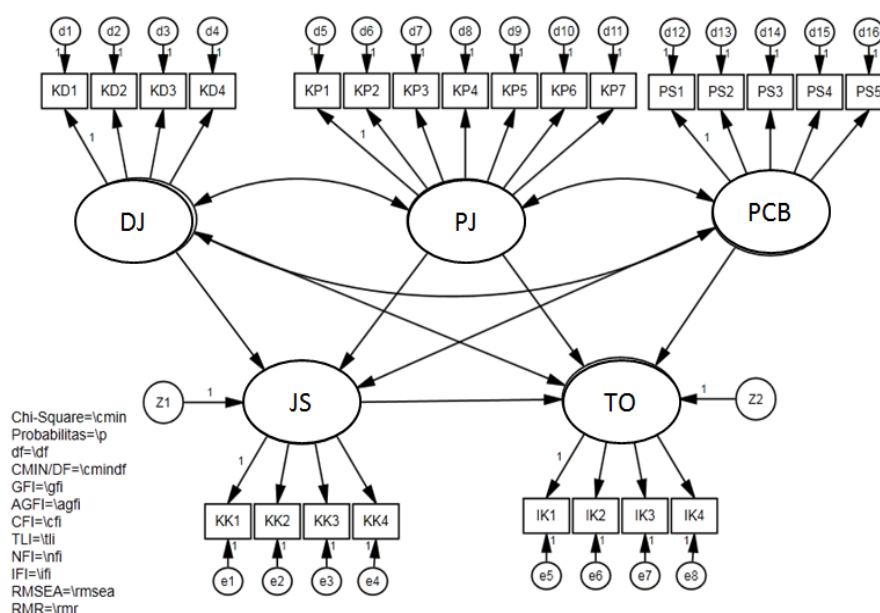


Figure 1: Conceptual model using path diagram.

on the effect of procedural justice for turnover intentions. Tests showed negative estimation result parameter 0,078 with negative value of C.R.R 0,684 less than 1,967 with probability 0,494 more than 0,05. This shows that employees in the building planning consultant company do not really care about how the company's compensation procedure. This is possible because welfare motives are more related to distributive justice so that if distributive justice is good then procedural justice becomes insignificant.

Psychological contract and turnover intention

The results of the research show that psychological contract has a positive effect on turnover intention. This is in line with previous research ever conducted by Suazo [21]. Suazo concluded breaches of psychological contracts have a positive and significant effect on turnover intentions.

Employees on building planning consultant company wishes to quit if the company breaches the psychological contract. The denial of promises, especially appointments relating to compensation will affect employees' intention to leave the company. But if all promises related to compensation are kept well, then the employee remains with the company.

Job satisfaction and turnover intention

The result shows that job satisfaction especially satisfaction to compensation does not significantly affect the desire of employees to quit. It is proved by negative parameters 0,003 and negative C.R 0.030 value less than 1,967, probability 0,976 more than 0,05. It is possible that there are more complex variables in predicting turnover intentions such as labor market conditions of the engineer and the opportunity to obtain better jobs.

Distributive justice, procedural justice and job satisfaction

Distributive justice in compensation and procedural justice in

compensation will affect job satisfaction. The research shows that distributive justice in compensation has a positive effect on job satisfaction. It shows that employees are satisfied with their work if company compensates according to its distribution, and dissatisfied if the distribution of compensation is done unfairly.

The results of research on procedural justice of compensation to job satisfaction showed an estimate of 0.043 with a positive C.R of 0.274 less than 1.967 with probability 0.784 more than 0.05. These results indicate that the effect of procedural fairness of compensation on job satisfaction is not significant. It can be interpreted that the procedures for granting compensation do not significantly affect job satisfaction. Employees do not really care about the process of how compensation is given by the company. The value of the compensation further affects the satisfaction of employees. The data show relatively high on distributive justice and less concerned with procedural justice.

Psychological contract breach and job satisfaction

Result shows that breach of psychological contract has an effect on job satisfaction. This indicates that employees satisfy with their work if the promises made by the company are well kept, and dissatisfied in case of a breach of psychological contract. The results of interviews with several respondents in one company corroborate the results of this study. Employees are dissatisfied with their work when promises such as bonus rewards at the end of the project are not given as delivered by the company. Dissatisfaction is also indicated by the decreasing morale of employees.

Conclusion

In this study, compensation distributive justice plays a dominant role over procedural justice in explaining turnover intention. Distributive justice compensation has a negative effect on turnover intention while procedural justice compensation has no effect on turnover intention. Similarly, job satisfaction has no effect on turnover intention. The results

also show that distributive justice compensation has a positive effect on job satisfaction. Conversely, procedural justice of compensation has no effect on job satisfaction. On the other hand, breach of psychological contract has an important role in explaining organizational outcomes. Breach of psychological contract has a positive effect on turnover intention while breach of psychological contract has negative effect on job satisfaction.

Implication and Recommendation

Based on research results, we recommend for building planning consulting firms on how to reduce turnover intention. First of all, equity in paying compensation must be considered. The fairness of firms in the provision of compensation in accordance with a fair allocation will reduce the employee's desire to leave.

Secondly, it is expected that company fulfills the promises given to employees in order to suppress the desire to leave. The denial of promises will have an impact on turnover intention.

In order to increase job satisfaction, organization should provide compensation fairly in accordance with the allocation. The company should also care to meet the agreements the company has given to employees. Although in this study procedural justice has no effect on job satisfaction and turnover intention, it is more due to the dominant role of distributive justice. Therefore, procedural justice must still be managed well, as it describes the company's capability for the long term.

One of limitations in this research is the using of convenience sampling technique which cannot be generalized to other cases. The respondents in this study only come from five offices of building planning Consultant Company in Indonesia, so that further research should be done by multiplying the sample number of consultant office building planner.

Another limitation is the potential bias of a single data source as employee assesses the independent variable and its consequences at the same time. We suggest a future research that is considering an effort to reduce the potential bias in the study.

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