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# The Roles of Organizational Politics and Fairness in the Relationship between Relative Performance Evaluation and Managerial Performance

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**Keywords:** Relative Performance Evaluation, Organizational Politics, Fairness, Managerial Performance.


**Abstract:** The purpose of this study is to investigate if the perceptions of organizational politics and perceptions of fairness mediate the relationships between relative performance evaluation and managerial performance. A survey of 125 managers of manufacturing companies in Indonesia are used to test the models. Data analysis is undertaken with Partial Least Square. Results indicate that relative performance evaluation has a positive impact on organizational politics. The finding suggests that general political behaviour and the politics of going along to get ahead has a negative impact on managerial performance but pay and promotion policies have no impact on managerial performance. The results also indicate that general political behaviour and politics of going along to get ahead significantly mediate the relative performance evaluation and managerial performance relationship. In contrast, the mediating effects of politics on pay and promotion policies on the relationship between relative performance evaluation and managerial performance is insignificant. We also find that the use of relative performance evaluation has a negative impact on fairness; and fairness is positively related to managerial performance. Specifically, the results find that fairness significantly mediate the use of performance relative evaluation and managerial performance relationship.

## 1 INTRODUCTION

During the last decade, managerial performance has become a significant target in organizations (Kumar et al., 2015). Managerial performance has a major influence on every decision made by the company that leads to an increase in organizational performance (Andersen and Moynihan, 2016; Jacobsen et al., 2018). Therefore, managerial performance is seen as a very important research area for organizations and still requires solutions in efforts to improve performance (Lau, 2015).

Previous studies have largely associated managerial performance with performance evaluation systems, namely financial performance measures and non-financial performance measures. For example, Spekka and Verbeeten, 2014 explain that the performance evaluation system affects the organizational performance, and that the performance effect depends on the ability of the contract. Hassan et al., 2016 shows that job satisfaction mediates the

relationship between the performance evaluation system and managerial performance. Lau, 2015 shows that role clarity significantly mediates the relationship between non-financial performance measures and managerial performance. These results indicate that the relationship between the performance evaluation system (financial and non-financial) and managerial performance is an indirect relationship, namely through various mediating variables. This means that empirical evidence, which can increase the understanding that the performance evaluation system affects managerial performance, is still needed (Wu, 2020). Previous studies have yet to associate the relative performance measures with managerial performance, whereas since the early 2000s, the management accounting literature has proposed the performance evaluation using relative performance measures, because they are seen as more flexible than financial and non-financial performance measures (Morlidge and Player, 2010). ). Because there is no empirical evidence whether relative

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performance measures that are seen as more flexible and more adaptive can affect managerial performance, this study examines the relationship between relative performance measures and managerial performance.

Considering the vague relationship between relative performance measures and managerial performance, this study uses mediating variables to examine whether and how the relative performance measures and managerial performance are associated. Organizational politics and procedural fairness were chosen as the mediating variables.

The organizational politics variable was chosen because it is endemic and existed throughout the organization (Lau and Scully, 2015). In addition, organizational politics is still rarely researched by management accounting researchers (Lau and Scully, 2015), even though organizational politics affects behavior (Lau et al, 2018). Since the research in the field of management accounting that uses organizational politics variables is still rare, this study fills the gap in the literature by associating the relative performance evaluation system with perceptions of organizational politics.

Procedural fairness was chosen because the study of procedural justice is important and fairness affects the behavior and the performance (Lau, 2015). The literature shows that fairness has important effects on many aspects of the organization. Greenberg and Colquitt, 2005 reveal that everyone in the organization is concerned about the sense of fairness. Fairness in the performance evaluation system can be a major determinant of an employee's performance, so it is important for organizations to know and maximize the performance evaluation system which is considered fair by the employees. (He and Lau, 2012). This study provides novelty by showing the relationship between the relative performance evaluation system and perceptions of procedural fairness.

This study aims to examine whether and how a performance evaluation system which uses relative performance measures is connected to managerial performance by examining the mediating variables of organizational politics perceptions and procedural fairness perceptions. The results of this study contribute to management regarding the importance of understanding the use of relative performance measures and their impact on organizational politics, sense of fairness and managerial performance. The results of the research become a reference for theory and practice, because they increase knowledge and understanding of the relationship between the performance evaluation system and managerial

performance. Regarding the studies in the field of management accounting that rarely take up on organizational politics while the perception of the existence of organizational politics is likely to have an impact on performance, this study is a stepping stone that provides an understanding of how organizational politics works in a management accounting setting.

### **Literature Review and Hypothesis Development**

Relative performance measures are performance measures that use peer group performance comparisons as a benchmark (Van Elten, 2017) or performance measures that compare employees' performance with peer employees and / or average performance within a division (O'Grady and Akroyd, 2016). Relative performance measures provide opportunities for employees to take uncooperative actions which would cause harm to the company, such as collusion and conduct conspiracy (Lazear, 1989). Relative performance measures also provide opportunities for employees to engage in spreading false rumors, hiding valuable information, and destroying coworkers' data (Gibbons and Murphy, 1990).

The perceptions of organizational politics are individual perceptions of the existence of politics in the workplace (Lau et al., 2018). Kacmar and Carlson, 1997 define organizational politics as actions taken by individuals for their own interests by affecting the behavior of others. There are 3 dimensions of organizational politics according to Kacmar and Carlson, 1997, firstly, general political behavior (individuals serve themselves and behave when good regulations and rules do not exist and cannot regulate behavior and actions); second, politics of going along to get ahead (political behavior occurs when other people also act / behave politically); and third, politics on pay and promotion policies (this political behavior occurs when individuals avoid the implementation of salary and promotion policies).

Procedural fairness refers to an individual's perception of fairness towards a particular activity / procedure (Lind and Tyler, 1988). Some criteria for fairness according to Leventhal, 1980, namely (1) consistency rule to be fair, which is a procedure to follow the same rules and be enforced in the same way every time they are used; (2) bias-suppression rule, meaning that the decision maker has no interest in the resulting procedure (3) accuracy rule, which is a procedure based on accurate information; (4) correctability rule, which is a rule that has the opportunity to be changed / corrected; (5)

representativeness rule, which is a rule that is closely related to participatory decision making; (6) ethicality rule, namely a procedure that must comply with moral and ethical values. Mahoney et al., 1965 defines managerial performance as individual performance which includes: planning, investigation, coordination, evaluation, supervision, staff selection, negotiation, and representation.

### **Performance Evaluation, Relative Performance Measure, and The Perceptions of Organizational Politics**

Kacmar and Carlson, 1997 define the general political behavior as the behavior of individuals acting in self-serving ways to get results. This refers to the political behavior that is conducted to gain authority. When resources are scarce, people compete for scarce resources, such as increment, office space, budgets, and promotions (Beugre and Liverpool, 2006). Scarce resources lead individuals to commit unethical actions such as spreading false rumours, hiding valuable information, and destroying co-workers' data. The use of relative performance provides incentive for employees to engage in spreading false rumours, hiding valuable information, and destroying coworkers' data (Gibbons and Murphy, 1990). Based on the above arguments, it is suspected that there is a positive effect between relative performance evaluation and the perceptions of general political behavior.

**H1a.** The use of relative performance measures has a positive effect on subordinates' perceptions of general political behavior.

Kacmar and Carlson, 1997 define politics of going along to get ahead as the political behavior that occurs when other people act / behave politically. The use of relative performance provides incentives that will lead to collusion (Gibbons and Murphy, 1990; Mookherjee, 1984). Collusion / conspiracy would be more effective when employees can observe co-workers' compensation and output. If the output / individual performance is poor and the performance of colleagues in the organization is underperforming and this will lead to collusion. The consequence that occurs is that individuals who perform poorly can be considered as good, if the performance of their colleagues is still below their performance. Based on the above arguments, it is suspected that there is a positive influence between the evaluation of relative performance and the perception of politics of going along to get ahead.

**H1b.** The use of relative performance measures has a positive effect on subordinates' perceptions of politics of going along to get ahead.

The politics of pay and promotion policies describes the behavior of individuals who tend to reject and avoid the implementation of promotion and payment policies for personal purposes (Kacmar and Carlson, 1997). Relative performance measures can increase the chances that salary increment and promotions are less relevant towards pay and promotion policies. Performance measures that compare peers' performance would make it easier for individuals to serve themselves (only those individuals who continue to experience salary increment compared to others) by engaging in political means, such as "currying" company leaders. The individuals who are engaged in this political behavior are most likely those who have the authority to affect policies and decisions regarding pay and promotion (Lau et al., 2018). Based on the above arguments, it is assumed that there is a positive influence between relative performance evaluation to perceptions of the politics of pay and promotion policies. H1c. The use of relative performance measures has a positive effect on subordinates' perceptions of the politics of pay and promotion policies.

### **The Perceptions of Organizational Politics and Managerial Performance**

General political behavior refers to behavior to gain authority. This includes the formation of coalitions to strengthen networks and positions to create the impression that political players in the organization are overpowering and to gain control of information which is the source of strength (Beugre and Liverpool, 2006; Kacmar and Carlson, 1997). This behavior has a functional effect, which is related to the acquisition of authority (Baum, 1989). This behavior tends to be in line with dysfunctional behavior that can reduce performance. When the individual feels that his views are being opposed by his team members, he would assume that his abilities are being assessed negatively, which in turn leads to dissatisfaction, stress, and relationship conflict. General political behavior also makes it difficult to exchange information with people in the organization, with hiding information, which ultimately leads to poor and ineffective coordination (Bai et al., 2016; Mahoney et al., 1965). This study suspects that general political behavior can reduce managerial performance.

**H2a.** Subordinates' perceptions of general political behavior have a negative effect on managerial performance.

Politics of going along to get ahead refers to political behavior in which individuals adopt a strategy by not taking action to avoid conflict in order to get help or avoid punishment from other political groups (Lau et al., 2018). When individuals are engaged in selfish politics, they can threaten the interests of others (Lau et al., 2018). This behavior can reduce performance, namely conducting collusion / conspiracy and distorting information that might harm the company. This dysfunctional behavior is generally labeled as counterproductive working behavior. Counterproductive refers to actions that have a negative impact on the welfare of the organization (Rotundo and Sackett, 2002). When conspiracy occurs, evaluation activities in performance evaluation would not go well, because some parties wanted employees who can be invited to conspire for personal purposes (Mahoney et al., 1965). Therefore, this study suspects that politics of going along to get ahead negatively affects managerial performance.

**H2b.** Subordinates' perceptions of politics of going along to get ahead have a negative effect on managerial performance.

The politics of pay and promotion policies occur when payment methods and promotional policies are applied inconsistently and non-compliantly. This might have a negative effect on the motivation of the subordinates. The politics of pay and promotion policies focus on refusing to establish a policy and promotion for personal purposes. Refusing to follow company policies for personal interests indicates a lack of individual integrity, which is suspected to reduce performance. Adams' equity theory (1965) reveals that when a person feels a difference in the level of input and output (reward & salary) with other people and ultimately employees would feel inequality. If employees feel inequality, it has the potential to reduce performance in terms of goal setting, agenda setting, work scheduling, and employee evaluations (Mahoney et al., 1965).

**H2c.** Subordinates' perceptions of the politics of pay and promotion policies have a negative effect on managerial performance.

### **Relative Performance Measures and The Perceptions of Procedural Fairness**

In the context of performance evaluation, employees will consider a performance evaluation procedure as a fair procedure if the procedure (1) leads to a performance evaluation that is based on complete and accurate information, (2) reflects on long-term interests, (3) makes it possible to appeal and correct

unfair judgments, (4) reflects performance within their control, (5) protect their interests, and (6) show respectful and dignified treatment (Lau and Moser, 2008). This study suspects that the use of relative performance measures can be perceived as unfair by employees, because relative performance measures are not clearly defined, less consistent and show unclear performance expectations. This study suspects that the procedural of relative performance measures will be perceived as unfair by employees.

**H3:** The use of relative performance measures has a negative effect on subordinates' perceptions of procedural fairness.

### **The Perceptions of Procedural Fairness and Managerial Performance**

Leventhal, 1980 defines a fair procedure is based on six criteria, namely ethicality, avenue for appeal, representation, bias suppression, accuracy and consistency. Employees would feel fair towards a procedure if one of the criteria is met (Niehoff and Moorman, 1993). Tang and Sarfield-Baldwin, 1996 explain that if a manager can establish consistent and fair rules for all employees and provide reward to employees based on performance without personal bias, then employees will perceive procedural fairness. If employees feel fair, it can improve their performance in terms of cooperation, transparency and information disclosure (Mahoney et al., 1965). This study suspects that procedural fairness improves managerial performance.

**H4.** Subordinates' perceptions of procedural fairness have a positive effect on managerial performance

### **Mediating Effects of Perceptions of Organizational Politics and Perceptions of Procedural Fairness**

The main objective of this study is to ensure whether perceptions of organizational politics mediate the relationship between relative performance measures and managerial performance. Continuing the hypothesis of H1a, H1b and H1c, that the use of relative performance measures has a positive effect on perceptions of organizational politics, and H2a, H2b, H2c, namely perceptions of organizational politics have a negative effect on managerial performance, this study suspects that organizational political perceptions mediate the influence between the use of relative performance measures with managerial performance.

**H5a.** The effect of using relative performance measures on managerial performance is significantly mediated by subordinates' perceptions of general political behavior.

**H5b.** The effect of using relative performance measures on managerial performance is significantly mediated by subordinates' perceptions of the politics of going along to get ahead.

**H5c.** The effect of using relative performance measures on managerial performance is significantly mediated by subordinates' perceptions of the politics of pay and promotion policies.

Murphy and Cleveland, 1995 explain that relative performance measures in their use would produce negative reactions to the performance evaluation system because the performance measures are relatively inconsistent in terms of getting feedback and in delivering information. Continuing from H3, namely the use of performance measures that have a negative effect on managerial performance and H4, namely procedural fairness has a positive effect on managerial performance, this study suspects that subordinates' perceptions of procedural fairness mediate the effect of using relative performance measures on managerial performance. **H6.** The effect of using relative performance measures on managerial performance is significantly mediated by subordinates' perceptions of procedural fairness.

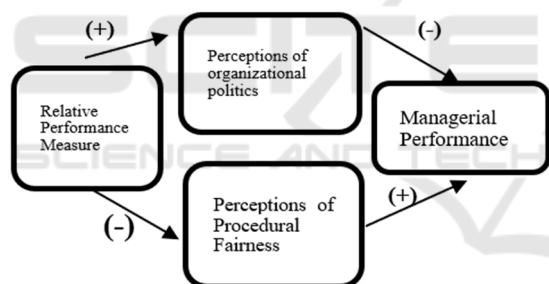


Figure 1: Conceptual Model.

## 2 METHODS (AND MATERIALS)

### 2.1 Sample Selection and Data Collection

This study uses primary data which are collected through a questionnaire survey on operational level managers at the manufacturing companies in West Java Province, Indonesia. Snowballing techniques were used for sample selection. The questionnaires were distributed personally through postal, link and personal in the period April 2020 - October 2020. This survey method was chosen because this study intends to find out respondents' perceptions of organizational politics and procedural fairness from

the use of relative performance measures. The survey method can accommodate the real perception of the respondents (managers) and the respondents are the most reliable source for certain types of information (Nazari et al., 2006). The manufacturing industry was chosen to limit the industry (He and Lau, 2012) and the manufacturing industry is one of the industries that plays an important role in developing the economy in the future, so it is very important to improve managers' performance through a performance evaluation system.

A total of 125 from 142 respondents' answers were collected and can be analyzed. The respondents consisted of 68 men and 57 women. 50 respondents were below 30 years old, 31 respondents were 41-50 years old, 30 respondents were 30-40 years old, and 14 respondents were 51-60 years old. With high school education (5), Bachelor (96), Masters (19), Doctoral (5). Of the 125 respondents, 32 are accounting managers, 31 marketing managers, 28 production managers and the remaining 34 are from the HRD, supply chain, finance, IT, general manager, audit, general affairs, R&D, purchasing, administration, legal, Directorate of Technology, tax departments, and Merchandising. 38 respondents came from the textile and garment manufacturing industry, 29 from pharmaceuticals, 23 from consumption, 12 from automotive, and 23 from other fields.

### 2.2 Measurement of Variables

RPE is measured using an instrument developed by Van Elten, 2017. A total of 7 (seven) question items are used to measure RPE, namely whether when superiors evaluate manager performance, they compare the manager's performance with peers' performance in completing additional tasks outside their primary responsibility; accept additional assignments outside of the main responsibility; express ideas; resolve employee turnover; pressing overtime hours; better actual performance conditions; and worse actual performance conditions. Seven-point scales were used for respondents' answers, from never important to always important.

The perceptions of organizational politics were measured using an instrument developed by Kacmar and Carlson, 1997 with 8 question items, namely two items related to general political behavior; three items about politics of get along to get ahead; three items related to politics on pay and promotion policies. Seven-point scales were used on respondents' answers, from strongly disagree to strongly agree. Perceptions of procedural fairness are measured using

five question items developed by Colquitt et al., 2001. This instrument measures respondents' perceptions of the fairness of performance evaluation procedures in organizations, whether it meets the principles of fairness according to Leventhal, 1980, namely ethicality, consistency, accuracy, representation, bias suppression and avenue for appeal. Seven-point scales were used for respondents' answers, from strongly disagree to strongly agree. Managerial performance is measured by eight question items developed by Mahoney, 1965. Respondents are asked to evaluate their performance related to planning, investigation, coordination, evaluation, monitoring, staff selection, negotiation, and representation. Seven-point scales were used for respondents' answers, from strongly bad to strongly good.

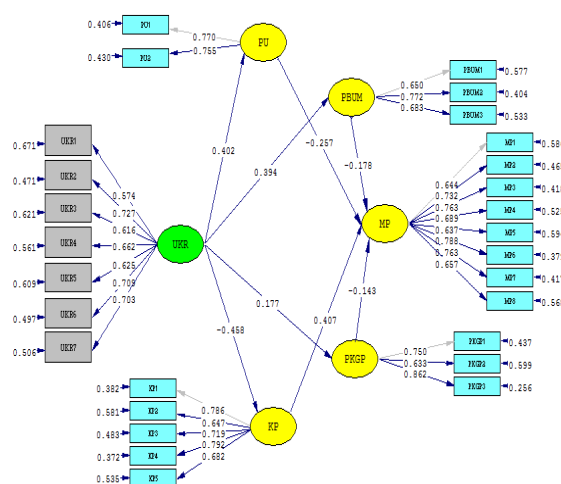


Figure 2: Full Model Standardization Coefficient.

### 3 RESULTS AND DISCUSSION

Structural equation modeling (SEM) with a variant-based technique is used for Data Analysis, namely Partial Least Square (PLS). SEM-PLS was used because this study was aiming at casual-predictive analysis and had weak theoretical support. Studies with weak theoretical support are suitable for using PLS (Joreskog & Wold, 1982). Another reason is that the indicators used are reflective and PLS is also suitable for reflective indicators (Hair et al., 2014).

#### 3.1 Measurement Model and Structural Model

The measurement model is a model that connects latent variables with the manifest variables. If the manifest variables have a factor loading value <than 0.5, it is recommended to remove the variable from the model (Hair et al., 2014). This study has 6 latent variables and 28 manifest variables. Figure 2 shows that all indicators have a loading factor greater than 0.5, so it can be concluded that all manifest variables are valid in reflecting their respective latent variables.

To find out whether the indicators used to measure latent variables have a high degree of suitability, the calculation of construct reliability and variance extracted were conducted. Table 1 shows the results of the calculation of construct reliability and variance extracted for each latent variables.

Table 1: Construct Reliability (CR) and Average Variance Extracted (AVE) .

Indicator	Loading Factor					
	UKR	PU	PBUM	PKGP	KP	MP
1	0.574	0.770	0.650	0.750	0.786	0.644
2	0.727	0.755	0.772	0.655	0.647	0.732
3	0.616	-	0.683	0.862	0.719	0.763
4	0.662	-	-	-	0.792	0.689
5	0.625	-	-	-	0.682	0.637
6	0.709	-	-	-	-	0.788
7	0.703	-	-	-	-	0.763
8	-	-	-	-	-	0.657
<b>CR</b>	<b>0.844</b>	<b>0.735</b>	<b>0.745</b>	<b>0.802</b>	<b>0.848</b>	<b>0.891</b>
<b>AVE</b>	<b>0.508</b>	<b>0.581</b>	<b>0.515</b>	<b>0.578</b>	<b>0.529</b>	<b>0.506</b>

Note: UKR (relative performance evaluation); PU (general political behaviour); PBUM (politics of going along to get ahead); PKGP (politics on pay and promotion policies); KP (procedural fairness); MP (managerial performance).

According to Hair et al., 2014, composite reliability (CR) is considered satisfactory if the CR is > 0.7 and the average variance extracted (AVE) value is ≥ 0.5. The results show that the construct reliability value of each variable ranges between 0.735-0.891 and shows a value above the minimum threshold of 0.7. These results conclude that the respondents' answer is consistent in answering the statement items. The results of the validity test with the average variance extracted (AVE) for each construct ranged from 0.506-0.578, and this value exceeds the minimum threshold of 0.5. This means that the construct explains more than half of the variance of its indicators. The test of goodness of fit was conducted to determine whether the model obtained has accurately described the relationship between the variables being researched so that it could be categorized as a good model (Hair et al., 2014). The results of the model fit test using parameters, namely the value of RMSEA, NFI / TLI, IFI and CFI. If the



RMSEA value is below 0.08 and the Incremental Fit Index (IFI), Tucker-Lewis Index (TLI) and Comparative Fit Index (NFI) values are > 0.9 then the model is acceptable (Hair et al., 2014). The results show that the RMSEA value is 0.071, and the IFI, TLI and CFI values respectively are 0.931, 0.923 and 0.930 (> 0.9) so it can be concluded that the model estimation results are acceptable, meaning that the empirical model obtained is in accordance with the theoretical model. R Square value was used to test the structural model. Subordinates' perceptions of general political behavior, politics of going along to get ahead, pay and promotion policies, as well as perceptions of procedural fairness simultaneously have an effect of 38.1% on managerial performance. This R Square value indicates a fairly strong predictive power (Ringle & Hansmann, 2004).

### 3.2 Hypothesis Testing Results & Discussion

#### The Impact of Relative Performance Measures on Perceptions of Organizational Politics

The results of the path analysis between the relative performance measures and the three forms of organizational politics show positive and significant results. The path between relative performance measures and general political behavior (path coefficient = 0.402; p-value <0.05); relative performance measures and going along to get ahead (path coefficient = 0.394; p-value <0.05); relative performance measures and pay and promotion policies (path coefficient = 0.177; p-value <0.05). Based on the test results, it can be concluded that both the direction and strength of the path coefficients for the relationship between relative performance measures and the three forms of organizational politics support H1a, H1b, and H1c hypotheses.

These results support Gibbons and Murphy, 1990, namely that the use of relative performance measures provides incentives for the emergence of general political behavior, such as distorting information, manipulating information for self-interest. The findings also support Kacmar and Carlson's 1997 argument that authority gives people an advantage in competing for scarce resources in several ways, for example forming coalitions to strengthen their positions, creating a favorable image for themselves. The use of relative performance measures in evaluating employee performance can increase the chances of forming coalitions that generate shared political power and behavior to advance. These findings also support Gibbons and Murphy 1990;

Mookherjee, 1984 which explains that relative performance measures create incentives for collusion which can reduce employee efforts to perform well. This will increase the chances of political behavior on pay and promotion policies, namely individuals tend to avoid and reject the implementation of pay and promotion policies for personal purposes, with the intention that only these individuals continue to experience salary increment compared to others by "currying" the leadership in the company.

Table 2: Hypotheses Testing H1 – H6.

Hypotheses	Path Coefficients	t-statistics	Results
H1a (+) UKR - PU	0.402	3.647	Sig
H1b (+) UKR - PBUM	0.394	3.617	Sig
H1c (+) UKR - PKGP	0.177	1.687	Sig
H2a (-) PU - MP	-0.257	-2.468	Sig
H2b (-) PBUM - MP	-0.178	-1.811	Sig
H2c (-) PKGP - MP	-0.143	-1.625	Not Sig
H3 (-) UKR - KP	-0.458	-5.043	Sig
H4 (+) KP - MP	0.407	4.164	Sig
H5a UKR - PU - MP	-0.103	-2.047	PU mediates
H5b UKR - PBUM - MP	-0.070	-1.980	PBUM mediates
H5c UKR - PKGP - MP	-0.025	-1.170	PKGP does not mediate
H6 UKR - KP - MP	-0.186	-3.203	KP mediates

Note: UKR (relative performance evaluation); PU (general political behaviour); PBUM (politics of going along to get ahead); PKGP (politics on pay and promotion policies); KP (procedural fairness); MP (managerial performance).

#### The Impact of The Perceptions of Organizational Political on Managerial Performance

The path between general political behavior and managerial performance (path coefficient = -0.257; p-value <0.05); go along to get ahead and managerial performance (path coefficient = -0.178; p-value <0.05). The test results show that both the direction and strength of the path coefficients for the relationship between general political behavior and managerial performance, and the relationship between politics of going along to get ahead and managerial performance support the H2a and H2b hypotheses.

These findings support Beugre and Liverpool, 2006; Kacmar and Carlson, 1997; Bai et al., 2016, namely that general political behavior makes it difficult to exchange information with people in the organization, which in turn leads to a poor and ineffective coordination. This finding also supports

Lau et al., 2018, namely that organizational politics is selfish. When some individuals are engaged in selfish politics, they threaten the interests of others. When conspiracy occurs, performance evaluation activities will not run well (Mahoney et al., 1965).

The results of the path analysis between pay and promotion policies and managerial performance (path coefficient = -0.143; p-value 0.150 (greater than 0.10) indicate an insignificant relationship. The results show that the perceptions of subordinates to the politics of pay and promotion policies have no effect on managerial performance. This result contradicts with Adams' Equity Theory, 1965, namely that when a person feels a difference in the level of input and output (rewards and salaries) with others, he will feel unfairness, disappointment and have the potential to reduce performance in terms of goal setting, agenda setting, work scheduling, and employee evaluation (Mahoney et al., 1965). The results of this study seem less common. This may be affected by the relatively small sample data which is likely to reduce the power of the statistical test. In addition, the instrument is not clearly specified. whether salary increments are given based on company's performance as a whole or also taking into account of the performance achievement per division. Respondents are mostly young, namely <30 years (40%) and education level with the majority of Bachelor (77%) are also likely to affect on this result, because it is likely that young managers with an undergraduate level of education are more focused on seeking working experience rather than focus on pay and promotion so that pay and promotion policies do not affect their performance.

#### **The Impact of Relative Performance Measures on Procedural Fairness**

The results of the path analysis indicate that the relative performance measure is negatively and significantly related to procedural fairness (path coefficient -0.458; p-value <0.05). These results provide support for the hypothesis (H3). The results conclude that the use of relative performance measures has a negative effect on subordinates' perceptions of procedural fairness. These findings support Lau and Moser, 2008, namely that performance measures that are less consistent (relatively) can be perceived as unfair by employees.

#### **The Impact of Procedural Fairness on Managerial Performance**

The results of the path analysis show that procedural fairness is positively and significantly related to managerial performance (path coefficient 0.407; p-

value <0.05). These results provide support for the hypothesis (H4). The test results conclude that subordinates' perceptions of procedural fairness have a positive impact on managerial performance. These findings support Tang and Sarfield-Baldwin, 1996, namely that employees who have a positive perceptions of procedural fairness will improve the managerial performance.

#### **The Impact Of Relative Performance Measures on Managerial Performance is Mediated by Organizational Politics**

Table 2 shows that the absolute  $t_{\text{statistic}}$  value of the relative performance measurement on managerial performance is mediated by general political behavior (2.047) and is greater than  $t_{\text{critical}}$  (1.96), then with a p-value <0.05, H5a is supported. The test results conclude that the subordinates' perceptions of general political behavior significantly mediate the use of relative performance measures on managerial performance. These results are associated with previous findings that show support that relative performance measures have a positive effect on subordinates' perceptions of general political behavior, and subordinates' perceptions of general political behavior have a negative effect on managerial performance (H1a and H2a are supported).

Table 2 also shows that the absolute  $t_{\text{statistic}}$  value of the impact of using relative performance measures on managerial performance is mediated by subordinates' perceptions of the politics of going along to get ahead (1.980) and is greater than  $t_{\text{critical}}$  (1.96), then with p-value <0.05, H5b is supported. The test results conclude that the perceptions of subordinates on the politics of going along to get ahead significantly mediate the use of relative performance measures on managerial performance. These results are associated with the previous findings which show that relative performance measures have a positive effect on politics of going along to get ahead, and the perception of subordinates of politics of going along to get ahead negatively affects managerial performance (H1b and H2b are supported).

Results are differ for the political mediating role of pay and promotion policies. Table 2 shows the absolute  $t_{\text{statistic}}$  value of the effect of using relative performance measures on managerial performance mediated by subordinates' perceptions of pay and promotion policies is (1,170) and less than  $t_{\text{critical}}$

(1.96), so with  $p$ -value  $< 0.05$ , H5c is rejected. The test results conclude that the perceptions of subordinates on the politics of pay and promotion policies do not significantly mediate the use of relative performance measures on managerial performance. These results are associated with previous findings which show support, that relative performance measures have a positive effect on subordinates' perceptions of pay and promotion policy politics (H1C is accepted), but subordinates' perceptions of pay and promotion policy politics have no effect on managerial performance (H2C is rejected). This finding also supports Hair et al., (2014) that mediation is not significant if there is an insignificant path coefficient.

#### **The Impact of Relative Performance Measures on Managerial Performance Mediated by Procedural Fairness**

Table 2 shows that the absolute  $t_{\text{statistic}}$  value of the impact of using relative performance measures on managerial performance is mediated by subordinates' perceptions of procedural fairness (3.203) and is greater than  $t_{\text{critical}}$  (1.96). Because the absolute value of the  $t$ -statistic is greater than the  $t$ -critical value, then with a  $p$ -value of  $< 0.05$ , H6 is supported. The test results conclude that the subordinates' perceptions of procedural fairness significantly mediate the use of relative performance measures on managerial performance. These results are associated with previous findings which indicate that relative performance measures have a negative impact on subordinates' perceptions of procedural fairness, and procedural fairness has a positive impact on managerial performance (H3 and H4 are supported).

## **4 CONCLUSIONS**

This study concludes that first, The relative performance measure are proven to be positively related to general political behaviour; politics of going along to get ahead; and politics of pay and promotion policies. Second, general political behaviour and politics of going along to get ahead are proven to decrease managerial performance, but it is not proven for politics of pay and promotion policies. Third, relative performance measure is proven to be negatively related to procedural fairness. Fourth, procedural fairness is proven to be positively related to managerial performance. Fifth, general political behaviour and politics of going along to get ahead significantly mediate the relationship of relative

performance measures on managerial performance; but politics of pay and promotion policies are not able to mediate the relationship of relative performance measure on managerial performance. Sixth, Procedural fairness significantly mediates the relationship of relative performance measures on managerial performance.

As seen from a theoretical perspective, the findings of this study have proven that the use of performance evaluation using relative performance measures can increase organizational politics, reduce feelings of fairness and reduce managerial performance. Therefore, this study has a practical contribution, namely to remind organizations to be careful in designing a performance evaluation system, because the performance evaluation system has an impact on the existence of organizational politics, has an impact on the sense of fairness and affects performance. This research also supports procedural fairness theory, namely that the fairness of the performance evaluation system tends to be the main determinant of employees' behavior where a fair evaluation process can generate commitment and improve performance (Lau, 2015; He and Lau, 2012; Greenberg and Colquitt, 2005).

Limitations and suggestions for future research are: First, this study is limited to several variables, namely organizational politics and procedural fairness as variables that affects managerial performance. Future research can examine other variables that might be caused by organizational politics such as stress and job satisfaction. Second, this study uses a survey method, therefore the limitations of this method are most likely inherent in this study, for example the limitations in obtaining a representative and unbiased sample. Future studies can use experimental methods, to ensure the relationship between relative performance measures and managerial performance. Third, this study is supported by a relatively small sample of data, and this is likely to reduce the power of statistical tests. Therefore, future studies are suggested to expand the sample data and considering a more heterogeneous sample in order to ascertain the influence of the politics of pay and promotion policies on managerial performance.

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