

EMPLOYEE PERFORMANCE APPRAISAL FORMALIZATION AND CHANGE IN SOME EMPLOYEE INTENTIONS TO QUIT

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Abstract

This study examines the influence of employee performance appraisal formalization on employee intentions to quit. Specifically, this study extends existing research on human resource management in the small to medium sized enterprise (SME) context, employee performance appraisal, and social exchange theory (SET) by examining the influence of performance appraisal procedural justice, change in trust in leadership, and change in organizational commitment following performance appraisal formalization on change in SME employee intentions to quit. Study results suggest that the formalization of performance appraisal reduces SME employee intentions to quit. Consistent with SET, study results also suggest that performance appraisal procedural justice, trust in leadership change, and organizational commitment change are negatively related to SME employee intentions to quit. Finally, study results suggest that trust in leadership change mediates the effect of performance appraisal procedural justice on SME employee intentions to quit.

Keywords: performance appraisal, small business, social exchange theory, intentions to quit

Introduction

Small and medium sized enterprises (SMEs) often face limitations with respect to their ability to attract, develop, and retain their employees (De Clercq & Rius, 2007; Park, Kim, Jang, & Nam, 2014). As a result, insights into how SMEs can manage their employees in order to limit turnover represents a highly salient issue to the management of SMEs. Existing human resources management (HRM) research conducted within SME contexts suggests that managers face a potential quandary (Kitching & Marlow, 2013). On the one hand, SMEs need to formalize their HRM practices in order to grow and develop (Kotey & Slade, 2005). On the other hand, the informality of SME HRM practices has been found to foster organizational commitment (OC) (Allen, Ericksen, & Collins, 2013), as well as reduce employee withdrawal (Marlow & Patton, 2002).

This study attempts to provide insight into how SME managers can handle this quandary by focusing on the role played by employee performance appraisal (PA) formalization in

shaping employee intentions to quit (ITQ). PA formalization, defined as the establishment of regularly scheduled and ongoing processes for employee performance evaluation (DeNisi & Pritchard, 2006; Lussier & Hendon, 2019), represents a foundational HRM practice for SMEs which lays the groundwork for the implementation of higher order HRM practices (Biron, Farndale, & Paauwe, 2011). However, research also suggests that the formalization of PA may prove disruptive to social exchange relationships within SMEs (Lawler, 1994) which contribute to SME success (Allen et al., 2013). Consequently, increasing understanding of how PA formalization effects change in SME employee ITQ may prove helpful to SME managers.

In the following section, we review research examining HRM practices within the SME context, as well as research addressing the potential impact of PA on social exchange relationships within SMEs. We then apply social exchange theory (SET) (Blau, 1964) to inform our development of hypotheses with respect to the influences of PA procedural justice, changes in employee trust in leadership (TIL), and changes in OC on changes in employee ITQ following PA implementation. Finally, we detail our methodology, present study findings, and then discuss managerial implications, study limitations, and potential avenues for future research.

Literature Review

Despite SMEs making significant contributions to national economies, relatively little is known about HRM practices within them (Mayson & Barrett, 2006). As a result of the liability of smallness (Stinchcombe, 1965), SMEs often struggle to recruit, train, and keep their employees (Kemelgor & Meek, 2008). Consequently, the effectiveness of HRM practices represents a key predictor of SME success (Patel & Cardon, 2010; Sheehan, 2014). Indeed, the consequences of HRM missteps are likely exacerbated in SMEs where there are fewer 'places to hide' such missteps (Messersmith & Guthrie, 2010).

Although HRM practices have been found to shape SME performance and survival (Patel & Cardon, 2010), our understanding of the causal mechanisms behind this relationship remains somewhat of a black box (Guest, 2011). Research on the role of HRM practices in shaping SME success has focused on the extent to which HRM practices are documented, systemized, and integrated into the firm, commonly referred to as HRM practice formalization (Nguyen & Bryant, 2004). Research in this vein often suggests that SMEs typically utilize informal HRM practices (Barber, Wesson, Roberson, & Taylor, 1999). A lack of resources represents one explanation for SME tendency to rely upon less formal HRM practices (Bae & Yu, 2005). For example, research by Hendry (1991), finds that SME leaders often view HRM practice formalization as unnecessary until SMEs achieve consistent profitability. Additionally, research suggests that the costs of formalized HRM practices may exceed their benefits in the context of SMEs (Way, 2002).

Other research suggests that the tendency of SME to rely upon informal HRM practices represents an outgrowth of the key role played by social exchanges that occur within SMEs. Grounded in SET (Blau, 1964), research adopting this view often suggests that HRM practice informality within SMEs engenders teamwork and strong social relationships between SMEs, managers, and employees (Kitching & Marlow, 2013). The informality of HRM practices within SMEs allows for flexibility in employee work

patterns and responsibilities which represent non-pay benefits that foster opportunities for SME managers and employees to repay the favors they provide each other (Marlow & Patton, 1993). The reciprocation of such favors, in turn, is believed to enhance employee-SME social exchange relationships thereby increasing employee commitment to their employer (De Clercq & Rius, 2007).

While informal HRM practices are typical within SMEs, the formalization of HRM practices is thought to increase SME capacity for growth (Barrett & Mayson, 2007; Nguyen & Bryant, 2004). Although, HRM practice formalization is thought to foster SME growth, it may also result in the assignment of new roles and responsibilities to SME employees, resulting in altered job demands (Kitching & Marlow, 2013). As a consequence of such changes, SME employees may not view HRM formalization in a positive light (Marlow & Patton, 1993) thereby decreasing their job satisfaction (Forth, Bewley, & Bryson, 2006). As a consequence of these potential disruptions to their relationships with their employer, HRM formalization may result in increased SME employee ITQ (Kim, Wehbi, DelliFraine, & Brannon, 2014).

The purpose of this study is to increase our understanding of the consequences of HRM practice formalization for SMEs by examining the role played by PA formalization in shaping change in SME employee ITQ. Performance appraisals represent the, “discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process” (DeNisi & Pritchard, 2006, pg. 254). PA also represents a distinct case of the process of HRM formalization. PA formalization lays the groundwork for other forms of HRM (Biron et al., 2011), and as such may shape the effectiveness of subsequently formalized HRM practices (Erdogan, 2002; Takeuchi, Lepak, Wang, & Takeuchi, 2007). Moreover, PAs contribute to SME growth by articulating the employee behaviors desired by SME employers (Jones, Morris, & Rockmore, 1995). Research further suggests that while most SMEs attempt to appraise the performance of their employees (Kotey & Slade, 2005) the formalization of PA processes remain an uncommon occurrence within the SME context (Artz, 2008).

Relatively little research considers the influence of PA formalization on employees within SMEs (DeNisi & Smith, 2014). We attempt to extend existing research on PA in SMEs by drawing upon SET and extant research on PA in large organizations in order to better understand how SME employees react to PA formalization. Specifically, we examine how employee perceptions of instrumental and relational components of PA formalization influence change in their ITQ.

SMEs experience a variety of HRM challenges when it comes to retaining employees (De Clercq & Rius, 2007). The effects of employee turnover are potentially exacerbated by the various challenges faced by SMEs in attracting employees (Park et al., 2014). Moreover, research suggests that employee retention represents a critical hurdle to SME success. For example, employee turnover rates have been found to reduce firm growth (Baron & Hannan, 2002; Batt, 2002), which represents a key metric of SME success (Gilbert, McDougall, & Audretsch, 2006).

Employee ITQ represent a critical antecedent of employee turnover (Hulin, 1991). Indeed, research suggests that ITQ represents a robust and consistent antecedent of employee turnover (Griffeth, Hom, & Gaertner, 2000). As such, employee ITQ have been utilized by researchers to understand the process of employee turnover within large organizations (Benson, 2006). In spite of these findings, relatively little research has been conducted on employee ITQ within SMEs (Pajo, Coetzer, & Guenole, 2010). In order to address this gap, we draw upon SET to explore how PA formalization shapes SME employee ITQ.

SET and PA

SET attempts to explain the persistence of social actor adherence to the norms of reciprocity in the context of social exchange relationships (Blau, 1964). SET posits that as a social exchange partner accepts a favor from another partner, the recipient of that favor also takes on the obligation to reciprocate that favor in a similar manner in the future (De Clercq, Dimov, & Thongpapanl, 2010). To the extent that each social actor conforms with this norm of reciprocity by repaying the favors received in prior social exchanges, they demonstrate their commitment to the exchange relationship and social exchange persists (Masterson, Lewis, Goldman, & Taylor, 2000). However, when norms of reciprocity are unmet by a social exchange partner, SET suggests that commitment to the social exchange will erode bringing about an end to the social exchange relationship (Wayne, Shore, & Liden, 1997).

Applications of SET to the employee-employer relationship often focus on the exchange of employee labor for remuneration by the employer (Cropanzano & Mitchell, 2005). This research typically argues that employees engage in behaviors that benefit their employers when employees perceive employer support and commitment to their social exchange relationship (Settoon, Bennett, & Liden, 1996). Such studies often posit that employee commitment to a given employer arises in response to an evaluative process through which employees assess the commitment of their employers to them as employees (Rhoades & Eisenberger, 2002). Drawing upon SET logic, research finds that when employees perceive the manner in which they are treated by their employer to be consistent with their interests, the employer garners greater trustworthiness in the eyes of their employees, and employees reciprocate with greater commitment to their employer (Lavelle, Rupp, & Brockner, 2007). Conversely, when employees deem the treatment that they receive at the hands of their employer to be inconsistent with their interests, employer trustworthiness is eroded in the eyes of employees, resulting in employee withdrawal from the exchange relationship with their employer (Masterson et al., 2000).

Scholars have also begun to draw upon SET in order to explore the effects of HRM practices in the SME context. Such studies often emphasize the prominent role played by social-psychological connections between SME managers and employees (Baron & Hannan, 2002). In doing so, they emphasize the role played by HRM practices in shaping the tone of the SME-employee relationship (Paré & Tremblay, 2007). For example, research suggests the key role played by HRM practices in signalling organizational and managerial dedication to the SME-employee exchange relationship (Gould-Williams, 2007). According to this logic, HRM practices provide employees with insights into their

employer's commitment to them through the signals they send with respect to desired, accepted, and rewarded employee behaviors (Bowen & Ostroff, 2004).

Performance Appraisal Formalization as a Signal of Commitment to Employees

As a form of HRM practice, PA formalization may represent a signal to employees regarding SME commitment to their well-being and development. Formalized PA provides SME managers with a means of defining, communicating, and assessing employee behaviors, the purpose of which is to enhance employee contributions to organizational goals and strategic objectives (Murphy & Cleveland, 1995). When conducted properly, PA provides the feedback necessary for employees to improve their skills in a manner which allows them to better contribute to the organization (Lawler, 1994), thereby signalling a commitment on the part of the firm to employee development and growth.

SET logic suggests that SME employee interpretation of PA formalization as a signal of SME commitment to their employees will foster employee reciprocity in the form of greater levels of employee attachment to the SME (Baron, Hannan, & Burton, 2001). Such attachment, grounded in relational exchanges, has been found to foster a sense of belonging as well as increased intentions to remain with, and contribute to the SME (Baard, Deci, & Ryan, 2004). Extending this logic to PA formalization and SME employee ITQ, we posit that because PAs are generally intended to aid in employee development, PA formalization within the SME context may signal a long-term investment by the SME to its employees. Perceived in this manner, we posit that SME employees may experience an increase in their attachment to the SME following PA formalization. We therefore hypothesize the following:

Hypothesis 1a: PA formalization will decrease SME employee ITQ.

The formalization of PA processes, while generally viewed as requisite for development of HRM within small businesses, may also cause SME employees to initiate a process of sense-making through which they seek to ascertain who benefits from, who is harmed by, and why change in PA is needed (Rousseau & Tijoriwala, 1999). Studies examining the consequences of PA formalization suggest that these sense-making efforts represent a consequence toward the potentially disruptive effect of changes in PA processes on the employer-employee relationship, which can lay the groundwork for enduring disagreements between employees and those providing them PA feedback (Lawler, 1994). Indeed, research suggests that employees often exit their PA meetings feeling dissatisfied and disagreeing with the feedback they receive from their appraisers (Elicker, Levy, & Hall, 2006). Research further suggests that when this is the case, PA may not bring about the increases in employee development and motivation which motivates PA formalization (Keeping & Levy, 2000). Evidence of the frequency with which this occurs can be seen in the relatively paltry 30% of employees that think the feedback they receive in their PAs actually results in improved job related performance (Holland, 2006).

This suggests that as a result of the potentially deleterious effects of PA formalization to their relationship with their SME employer, SME employees may begin to wonder what the motivations for PA formalization are as a part of the sense-making processes

suggested by SET (Weick, 1995). This suggests that PA formalization may potentially change the ad hoc pattern of social exchanges typical of SMEs (Marlow & Patton, 1993; Marlow & Patton, 2002). This change may cause SME employees to feel that their employer is no longer committed to meeting the tacitly agreed upon obligations to their employees based upon the pattern of prior social exchanges (Heath, Knez, & Camerer, 1993).

SET logic suggests that when employees interpret PA formalization as disruptive to prior social exchange relationships they will view their employers as less desirable as social exchange partners. As a result, SME employees may then choose to withdraw from social exchanges with their employer. Employee ITQ represents one potential manifestation of social exchange relationship deterioration that may occur when an employee feels that their exchange relationship with their employer is no longer beneficial and in which the employee has no recourse in restoring the prior pattern of social exchange with their employer (Hulin, 1991). As such, employee ITQ may indicate a perceived irreparable deterioration of the social exchange relationship with their employer. Building on this logic, we posit that PA formalization may be interpreted by SME employees as damaging to their historical social exchange relationships resulting in an increase in SME employee ITQ. Consistent with this view, research suggests that the disruption of social exchange relationships by employers often results in increased employee turnover (Robinson, Kraatz, & Rousseau, 1994). Stated formally, we hypothesize the following:

Hypothesis 1b: PA formalization will increase SME employee ITQ.

PA Formalization and Change in SME Social Exchange Relationships

As a result of the pivotal role played by PA within HRM, a great deal of research examines the factors that enhance PA effectiveness (DeNisi & Smith, 2014). Research suggests that employee perceptions of, and reactions to, formalized PA may represent critical antecedents of PA success (Murphy & Cleveland, 1991). Indeed, research suggests that employee perceptions of formalized PA shape a variety of important employee outcomes (Brown, Hyatt, & Benson, 2010). Moreover, research finds that employee perceptions of the PA process represent the most important factor in evaluating PA effectiveness (Pearce & Porter, 1986) because even the most psychometrically valid PAs are of low utility unless the feedback they provide is accepted and acted upon by employees (Levy & Williams, 2004).

PA formalization research recognizes that PA occurs within a social context and acknowledges that social context shapes employee reactions to and perception of the PA (Levy & Williams, 2004). Research also acknowledges that individual employees perceive PA processes uniquely (Guzzo & Noonan, 1994). This view is supported by research findings which suggest that employee perceptions of HRM practice formalization often varies depending upon individual characteristics, like work experience, personal values, and job expectations (Den Hartog, Boselie, & Paauwe, 2004). This logic suggests that PA formalization, as one form of HRM practice, may be perceived uniquely by SME employees depending on their own frames of reference (Kuvaas, 2008). This view aligns with the findings of studies that demonstrate employee perceptions of HRM practices,

rather than actual HRM practices themselves, may shape employee reactions to their implementation (Nishii & Wright, 2007).

Brown and colleagues (2010) provide a typology of employee reactions to the PA process. They suggest that employee PA reactions can be distinguished by their focus on either PA procedures (which they term instrumental) or interpersonal relationships (which they term relational). Instrumental employee PA reactions focus on the characteristics of the PA procedures themselves. Relational reactions focus on the impact PA has on the relationships a given employee has with other actors within the organization. We drew upon Brown and colleagues' (2010) typology to guide our search for factors within research on PA which might change SME employee social exchange relationships following the formalization of PA. Because employee perceptions of the fairness of PA processes represent one of the most salient and influential employee perceptions of the PA process (DeNisi & Pritchard, 2006), we began by focusing on a specific employee reaction to the PA process that prior research suggests influences PA effectiveness: procedural justice.

Performance Appraisal Procedural Justice

Nascent research on employee reactions to PAs utilized the theoretical lens of organizational justice (Thurston & McNall, 2010) to study employee reactions to PA with respect to their perception of fairness (Adams, 1963). Expanding on this logic, researchers highlighted the key role of employee procedural justice perceptions in shaping their response to PA formalization (Pichler, Varma, Michel, Levy, Budhwar, & Sharma, 2016; Taylor, Tracy, Renard, Harrison, & Carroll, 1995). Procedural justice, in the context of PA, represents the extent to which employees believe the process of PA to be fair. Procedural justice, in the PA context, necessitate consistency in the use of employee evaluation criteria, accuracy in the assessment of employee performance, and the lack of bias on the part of the employee performance appraiser (Leventhal, 1980). Moreover, employee perceptions of PA procedural justice have been found to increase employee receptivity to the feedback provided via PA processes (Taylor et al., 1995).

Consistent with this view, we argue that SME employee perceptions of PA procedural justice shape their sense-making regarding the managerial motivations behind PA formalization. This notion is aligned with study findings that demonstrate how employee perceptions of fairness and consistency play a central role in shaping their commitment to their employers (Wilkinson, 1999). When employees perceive their PA as being procedurally just, we posit that PA formalization may strengthen the social exchange relationship between SME managers and employees through the signal it sends with respect to management's intention to be fair, and to act with integrity (Whitener, Brodt, Korsgaard, & Werner, 1998). Extending this logic, research suggests that managerial practices that are perceived by employees to be procedurally just enhance employee perceptions of organizational support, and result in higher quality social exchanges between managers and their employees (Masterson et al., 2000).

Contrastingly, when employees perceive PA processes as lacking in procedural justice, we posit SME employee attachment to their employer will be diminished as SME employees begin to question management's motivation for formalizing new PA processes. Consistent with this logic, research suggests that managerial practices which are

perceived as lacking in fairness weakens employee attachment to organizations (Searle, Den Hartog, Weibel, Gillespie, Six, Hatzakis, & Skinner, 2011).

Hypothesis 2: Employee perceptions of PA procedural justice reduce SME employee ITQ.

Changes in Trust in Leadership and Organizational Commitment

Further drawing upon Brown and colleagues' (2010) typology of employee perceptions of PA formalization, we posit that changes to the relational aspects of PA may also shape SME employee desire to persist in their employment relationship. This notion is consistent with SET and theory on employee sense-making following discrepant workplace events (Louis, 1980). Both SET and theories of employee sense-making suggest that employees compare the current condition of their workplace relationships with prior conditions of workplace relationships in order to understand why discrepant workplace events take place, as well as to understand how their workplace relationships are likely to evolve in the future (Louis, 1980). When workplace relationships are improved following discrepant workplace events, then employees emerge more committed to those relationships, whereas when discrepant events damage workplace relationships, employees are thought to withdraw from workplace relationships (Chen, Ployhart, Thomas, Anderson, & Bliese, 2011).

Consistent with this perspective, research finds that employees engage in a process of sense-making in response to the formalization of HRM practices (Wayne et al., 1997). During this process, employees seek to understand the intent and motivation of those responsible for enacting change in HRM practices (Settoon et al., 1996). The conclusions employees draw regarding the formalization of HRM practices, according to SET logic, are rooted in their perceptions of how well newly formalized HRM practices align with and benefit employee interests (Batt & Colvin, 2011).

Research on the consequences of PA formalization in large firms suggest that PA formalization may effect change in at least two aspects of employee relationships with their employers: trust in leadership (Mayer & Davis, 1999) and organizational commitment (Brown et al., 2010). The level of trust employees place in leadership, as well as their commitment to their employer, represents important characteristics of the quality of employee-employer social exchanges which foster organizational cooperation within the employee-employer relationship (Alfes, Shantz, & Truss, 2012; Haynie, Mossholder, & Harris, 2016). TIL embodies the attitudes held by employees with respect to their willingness to be vulnerable to their leaders (Whitener, 2001). Additionally, TIL reflects employee perceptions of leadership competence and motivation (Kramer, 1999). Indeed, research suggests that employees perceptions of their leaders' trustworthiness are shaped by their beliefs regarding leader competence and benevolence (Robinson, 1996). Organizational commitment represents employee emotional attachment to, as well as identification with an organization (Cao & Hamori, 2016). Research suggests that OC not only predicts employee dedication and effectiveness (Van Dierendonck & Jacobs, 2012), but also employee turnover (Tett & Meyer, 1993).

SET logic suggests that TIL and OC are likely influenced by employee perceptions of the pattern of treatment they receive from their leaders and employers (Wayne et al., 1997). Drawing upon this logic, we suggest that PA formalization within SME may shape employee TIL as well as OC by signalling leadership's commitment, and by extension the SME's commitment, to their exchange relationship with SME employees (Whitener, 1997). Drawing upon SET, we posit that employee TIL and OC before and after PA formalization serve as reference points for SME employee sense-making of PA formalization. Specifically, we suggest that decreases in employee TIL and OC following PA formalization may engender reduced employee attachment to their social exchange relationship with the SME, thereby increasing SME employee ITQ. We further suggest that increases in employee TIL and OC following PA formalization may result in enhanced employee attachment to their social exchange relationship with the SME, thereby decreasing SME employee ITQ. Stated formally, we hypothesize the following:

Hypothesis 3: Change in employee TIL following PA formalization is negatively related to change in SME employee ITQ.

Hypothesis 4: Change in employee OC following PA formalization is negatively related to change in SME employee ITQ.

Mediating effects of change in TIL and OC

Research suggests that employee procedural justice perceptions may shape the relational aspects (i.e., TIL and OC) of PA formalization as well. For example, research suggests employee TIL is increased when employees perceive PA to be procedurally just (Whitener et al., 1998). Studies also find that employee OC is enhanced when employees perceive PA processes as fair (Cheng, 2014). Both of these findings imply that employee perceptions of how PA is formalized in terms of procedural justice may influence employee assessment of the benefits of continued social exchange with their leaders and employers.

Combining the logic articulated in Hypotheses 3 and 4 with the empirical findings previously discussed suggests that changes in employee TIL and OC may mediate the influence of SME employee perceptions of PA procedural justice on change in their ITQ. Specifically, employee perceptions of procedural justice following PA formalization may effect change in employee perceptions of TIL and OC following PA formalization, which in turn effects change in SME employee ITQ.

Hypothesis 5: The negative effect of PA procedural justice on change in SME employee ITQ following PA formalization is mediated by change in employee TIL.

Hypothesis 6: The negative effect of PA procedural justice on change in SME employee ITQ following PA formalization is mediated by change in employee OC.

Methods

We collected responses from employees of a small, privately held, commercial construction firm headquartered in the southern U.S. in order to test our hypotheses. Survey questionnaires were administered to 97 employees. An initial survey was

administered to collect demographic, organizational tenure, and baseline OC, TIL, and ITQ data. In between the two survey waves, top managers formalized new PA processes. In focus group discussions with employees held prior to the formalization of PA, employees indicated that they were inconsistently evaluated in a manner that was not indicative of actual employee performance. Standardized PA processes were initially identified by the SME's leadership, who then gathered input from employee supervisors and tailored PA processes to align with various job specific factors. Non-managerial employees were excluded from the development and implementation of the formalized PA processes. The basis for the resulting PA processes placed an emphasis on employee supervisors engaging in PA at regular intervals as well as having those supervisors articulate desired behaviors and outcomes. The second round of surveys took place after the formalized PA processes were implemented, which was roughly three months after the first surveys were administered. The second surveys provided subsequent measures of OC, TIL, ITQ, and procedural justice. In order to ensure the confidentiality of survey responses, a member of the research team administered surveys to employees during on-site meetings. A total of 78 participants responded to both surveys, representing a response rate slightly greater than 80%. The average age of survey respondents was 40.52 years (SD = 15.69). The majority of which were men (86.2%). The average organizational tenure of survey respondents was 7.42 years (SD=6.88 years).

As a result of the fact that study constructs were assessed using self-report survey answers, we worked to limit concerns regarding common method variance (CMV) (Shadish, Cook, & Campbell, 2002) in multiple ways. For example, we collected survey responses both pre and post PA formalization. Such temporal separation represents one means of reducing the threat of CMV (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Additionally, a member of the research team collected survey responses in order to reduce the effects of social desirability on survey responses, which can also reduce CMV (Podsakoff et al., 2003). Finally, we utilized exploratory factor analysis to conduct a Harman's single factor test on our survey data. The resulting eigenvalues demonstrated that the first factor accounted for less than 50% of the variance among survey responses, which also suggests a lower likelihood of CMV issues in our data (Podsakoff & Organ, 1986).

Dependent Variable

Intentions to quit change, the dependent variable for this study, represents the change in ITQ responses between the first and second surveys. ITQ were measured using a five point Likert-scale based upon Cammann and colleagues' (1979) commonly relied upon measure of ITQ (Soltis, Agneessens, Sasovova, & Labianca, 2013). The Cronbach alpha reliability estimate for this measure was .68. In order to create a measure of ITQ change, we subtracted each study participant's first survey wave ITQ responses from their second survey wave responses.

Independent Variables

Appraisal procedural justice was measured using a five point Likert-scale based upon Duhlebohn and Ferris' (1999) often utilized measure of PA procedural justice (Pichler et al., 2016). The Cronbach alpha reliability estimate for appraisal procedural justice was .76. TIL was measured using a five point Likert-scale based on Podsakoff and colleagues'

(1990) often utilized (Xiong, Lin, Li, & Wang, 2016) trust in leadership scale. The Cronbach alpha reliability estimate for this measure was .72. In order to create a measure of *trust in leadership change* we subtracted each study participant's first wave TIL survey responses from their second wave survey responses. We measured organizational commitment using a five point Likert-scale based upon Cao and Hamori's (2016) organizational commitment scale. The Cronbach alpha reliability estimate for this measure was .77. In order to create our measure of *organizational commitment change* we subtracted each study participant's first wave OC survey answers from their second wave OC survey answers.

Controls

We controlled for various factors which extant research suggests may shape employee ITQ. Specifically, we controlled for organizational tenure, age, gender, and perceptions of appraisal utility. *Organizational tenure* represents the number of years each survey respondent was employed by the SME. *Age* represents each study participant's age measured in years. *Female* represents a dichotomous variable coded 1 in instances when survey respondents identified as female and coded 0 when survey respondents identified as male. *Appraisal utility* was measured on a five point Likert-scale based upon Greller's (1978) frequently relied upon (Dusterhoff, Cunningham, & MacGregor, 2014) measure of appraisal utility. The Cronbach alpha reliability estimate for this measure was .71.

Results

Table 1 provides sample means, standard deviations, and correlations. We tested the competing logic underlying Hypothesis 1a and 1b by comparing the sample means of ITQ collected during survey one (mean of 1.82, std. dev. of .849) and survey two (mean of 1.53, std. dev. of .807) by calculating a t-test comparing survey one and survey two means. Supportive of Hypothesis 1a and, in contrast to Hypothesis 1b, study results revealed that employee ITQ decreased by a statistically significant amount following PA formalization, $t(154) = 2.223, p < .027$.

Table 1 - Means, Standard Deviations, and Correlations

Variable	Mean	Std. Dev.	1	2	3	4	5	6	7
1) Δ Intention to quit	-0.30	0.34							
2) Org. Tenure	8.95	7.83	-0.43						
3) Age	46.64	15.02	-0.41	0.32					
4) Female	0.15	0.36	-0.16	0.33	0.18				
5) App. Utility	3.23	0.76	0.03	0.01	-0.07	0.06			
6) App. procedural justice	3.91	0.59	-0.17	-0.11	-0.03	-0.03	0.33		
7) Δ Trust in leadership	0.21	0.46	-0.36	0.06	0.20	-0.06	0.18	0.50	
8) Δ Org. commitment	0.19	0.22	-0.63	0.32	0.32	0.13	-0.06	0.11	0.43

Notes: Correlations greater than $|\cdot 29|$ are significant at $p < .05$

We utilized hierarchical ordinary least squares regression to test hypotheses 2-6 (Cohen et al., 2003). Examination of the resulting variance inflation factors yielded no evidence of multicollinearity. Results presented in Model 1 of Table 2 show that two control variables were related to intentions to quit change. Specifically, organizational tenure

and age were found to have negative statistically significant relationships with intentions to quit change.

Table 2 - OLS Regression Results

Variable	DV = Δ Intention to quit						Δ Trust in Leadership	Δ Org. Commitment
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	0.146	0.592*	0.028	0.163	0.277	0.456*	-1.695***	-0.185
Org. Tenure	-0.015**	-0.016**	-0.014**	-0.009*	-0.015**	-0.010*	0.005	0.007*
Age	-0.007**	-0.007**	-0.005*	-0.004*	-0.006*	-0.004*	0.006*	0.003*
Female	0.004	0.001	-0.032	0.011	-0.027	0.007	-0.145	0.010
App. Utility	0.004	0.042	0.033	-0.008	0.046	0.018	0.026	-0.032
App. Procedural Justice		-0.144*				-0.073	0.383***	0.067
Δ Trust in Leadership			-0.231**		-0.186*			
Δ Org. Commitment				-0.788***		-0.739***		
Adjusted R ²	0.231	0.279	0.315	0.448	0.317	0.466	0.258	0.130
Δ R ²	---	0.049*	0.084**	0.217***	0.086**	0.235***	---	---
F	6.78***	6.97***	8.07***	13.51***	6.95***	12.19***	6.34***	3.30**

n=78; * p<.05; ** p<.01; *** p<.001

Models 2-8 of Table 2 provide the results of hypotheses tests 2-6. Support was found for Hypothesis 2, which suggests a negative relationship between *appraisal procedural justice* and *intentions to quit change*. The coefficient for *appraisal procedural justice* found in Model 2 is negative and statistically significant ($p < .05$), suggesting that SME employee perceptions of PA procedural justice reduce their intentions to quit. We also found support for Hypothesis 3, which posits a negative relationship between TIL change following the formalization of PA and change in employee intentions to quit. In Model 3, the coefficient for *trust in leadership change* is negative and statistically significant ($p < .01$), suggesting that increases in employee TIL following PA formalization reduce employee intentions to quit. Support was also found for Hypothesis 4, which hypothesizes a negative relationship between change in organizational commitment and change in intentions to quit. The coefficient for *organizational commitment change* found in Model 4 is negative and statistically significant ($p < .001$), suggesting that changes in organizational commitment following PA formalization are inversely related to changes in their intentions to quit.

In order to test hypotheses 5-6, which address the mediating influence of changes in TIL and OC on the relationship between PA procedural justice and changes in ITQ, we relied upon the causal-steps procedure set forth by Baron and Kenny (1986). Applying the causal steps procedure to Hypothesis 5 regarding the mediating effect of *trust in leadership change* on the relationship between *appraisal procedural justice* and *intentions to quit change* suggests the following. The results of Model 2 of Table 2 establish a negative (-.144) statistically significant ($p < .05$) relationship between *appraisal procedural justice* and *intentions to quit change*. The results of Model 7 of Table 2 establish a positive (.383) statistically significant relationship ($p < .001$) between *appraisal procedural justice* and *trust in leadership change*. The results presented in Model 5 of Table 2 demonstrate a positive (.186) statistically significant relationship ($p < .05$) between *trust in leadership change* and *intentions to quit change*. Furthermore, Model 5 of Table 2 demonstrate that the coefficient for *appraisal procedural justice* (-.073) is no longer statistically significant once *trust in leadership change* is introduced into the model. Combined, these results suggest that *trust in leadership change* mediates

the relationship between *appraisal procedural justice utility* and *intentions to quit change*, consistent with Hypothesis 5.

Application of the causal steps approach to Hypothesis 6 regarding the mediating effect of *organizational commitment change* on the relationship between *appraisal procedural justice* and *intentions to quit change* suggests the following. The results of Model 2 of Table 2 establish a negative (-.144) statistically significant ($p < .05$) relationship between *appraisal procedural justice* and *intentions to quit change*. The results of Model 8 of Table 2 fail to establish a statistically significant relationship ($p < .001$) between *appraisal procedural justice* and *organizational commitment change*. As a result, we find no support for Hypothesis 6.

Discussion

We conducted this study in order to further our understanding of the influence of PA formalization on social exchange relationships within SMEs. Towards this end, we drew upon the insights of SET and prior research on the formalization of HRM practices within SMEs to develop hypotheses regarding the effect of PA formalization on change in employee ITQ. In order to test this logic, we conducted a longitudinal study on PA formalization within a small, privately held, construction company located in the U.S.

Our first set of hypotheses (1a and 1b) offered competing explanations for how PA formalization might influence change in employee ITQ. Study results were supportive of Hypothesis 1a which suggested that the formalization of PA would reduce SME employee ITQ. This echoes the findings of recent research by Lai and colleagues (2017) grounded in SET. They argue that the formalization of HRM practices serves to improve social exchange relationships between employees and their SME employers by clarifying employer expectations of SME employees. Supportive of this view, Lai and colleagues (2017) find HRM practice formalization increases performance and labor productivity within SMEs. Consistent with this view, the original PA processes of the sample SME were perceived as lacking by employees. Indeed, sample SME focus group discussions suggested that the prior method of employee PA was inadequate.

Tests of hypotheses 2-6, which address the influence of procedural justice, TIL change, and OC change on ITQ change were generally supported. Supportive of Hypothesis 2, SME employee perceptions of PA procedural justice were found to reduce ITQ. This finding echoes the notion that employee reactions to PA is shaped by their perceptions of PA procedural justice (Erdogan, 2002). This finding also echoes the conclusions of research on PA conducted in large firms which demonstrates that employee perceptions of PA procedural justice shape PA effectiveness (Taylor et al., 1995). Study results also support the logic of Hypothesis 3, that changes in SME employee TIL following PA formalization are inversely related to change in SME ITQ. Again, this finding is consistent with prior research conducted in large firms which suggests PA formalization plays a role in shaping employee TIL (Mayer & Davis, 1999). The support we found for an inverse relationship between OC change and change in SME employee ITQ, presented in Hypothesis 4, is consistent with research which suggests that the formalization of HRM practices can foster greater employee commitment (Cheng, 2014). Consistent with Hypothesis 5, we found that changes in TIL following PA formalization mediated the influence of PA procedural justice on change in ITQ. This finding is consistent with

research which suggests that employee perceptions of the procedural justice of HRM practice implementation plays a role not only in how employees perceive such practices, but in how they perceive the trustworthiness of their leaders (Alfes et al., 2012; Whitener, 1997). Finally, we found no support for the logic underlying Hypothesis 6, which posits that changes in OC mediate the influence of procedural justice on changes in SME employee ITQ following PA formalization. This may suggest that SME employees do not attribute the outcomes associated with PA formalization to the broader organization as a whole, but rather to the leaders who implement them (Whitener et al., 1998).

Conclusion

This study illustrates how SME employee perceptions of procedural justice, TIL, and OC influence change in their ITQ following PA formalization. Consistent with research on PA processes conducted in the context of large firms, the findings of this study suggest that employee perceptions of PA procedural justice, TIL, and OC play critical roles in reducing the potential negative effects of PA formalization on employee ITQ within SMEs. Study findings add to our understanding of PA formalization by demonstrating that the influence of PA procedural justice is mediated by the change that SME employees place in their leaders.

Overall, study findings suggest that PA formalization may allow SME leadership a means of reducing SME employee ITQ, as well as a means to strengthen the social-exchange relationships with their employees. Specifically, this study extends our understanding regarding the influence of HRM practices on social exchange relationships within the SME context by highlighting the context within which PA is formalized which, therefore, increases our understanding of the importance of *where* PA is formalized. While research acknowledges that SMEs differ with respect to industry participation and organizational development, prior research utilizing SET in the SME setting does so in the context of young, high-technology ventures (i.e. Allen et al., 2013; Messersmith & Guthrie, 2010). In contrast to the findings of research conducted in these contexts, which suggest that formalized HRM practices disrupt social exchange relationships within SMEs, the findings of this study demonstrate that the formalization of HRM practices within an established SME conducting business in a low-tech industry, may improve the social exchange relationships taking place within the firm.

This study also provides at least two insights for SME managers faced with the task of formalizing their PA processes. First, because PA formalization may shape employee ITQ, SME managers should exercise caution when formalizing PA in their firms. Second, providing SME employees with PAs that are procedurally just can affect how employees respond to the PA formalization process in terms of both their ITQ, and the amount of trust that they are willing to place in their managers after PA processes are formalized.

Study Limitations and Future Research

This study took place in the context of a small, privately held, commercial construction firm, composed of slightly less than one hundred employees, doing business in the U.S. As a result, the findings of this study may not extend to other firms doing business in other contexts. Additionally, because sample firm employees often engaged in regular contact with SME leaders, it is not possible to rule out that these interactions led study

participants to respond to PA formalization differently than they might in a larger organization where such interactions with upper management might occur less frequently. Moreover, because sample firm employees expressed dissatisfaction with the previous informal nature of PA procedures, the influence of PA formalization on ITQ found in this study may not generalize to other firms in which the employees are content with already existing PA processes.

Study findings may also be limited because of this study's methodology, which may also suggest areas for future research. For example, although we cannot rule out statistical conclusion validity issues resulting from common method variance, the statistical significance of changes in our time-separated measures does suggest a reduced likelihood of common method variance issues surrounding study findings. Future research may consider sampling techniques that allow for the analysis of both primary and secondary sources of data, as well as study designs that provide a stronger basis for making causal inferences with respect to the influence of PA formalization on changes in SME employee ITQ.

Future research may further build upon this study by extending the time frame of observation. Doing so would allow for an examination of the duration of the effects of PA formalization on SME employee ITQ. Additionally, future studies may extend current research by applying the theory developed in this study to actual SME employee behaviors. For instance, might the formalization of PA within the SME context shape actual employee turnover rates? Research on this topic may prove especially beneficial to SME leaders due to the substantial influence of employee turnover rates on SME performance suggested by extant research (Baron et al., 2001).

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