

**THE RELATIONSHIP BETWEEN EMPLOYEES'  
PERCEPTION OF ORGANIZATIONAL JUSTICE AND  
ORGANIZATIONAL COMMITMENT IN INLAND  
REVENUE BOARD OF MALAYSIA (IRBM) IN SABAH  
BRANCHES**

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## DECLARATION

I hereby declare that the thesis materials are based on my original works, except for quotations, citations, excerpts, and references which have been duly acknowledged

18 August 2014



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## **ABSTRACT**

### **THE RELATIONSHIP BETWEEN EMPLOYEES' PERCEPTION OF ORGANIZATIONAL JUSTICE AND ORGANIZATIONAL COMMITMENT IN INLAND REVENUE BOARD OF MALAYSIA (IRBM) IN SABAH BRANCHES**

This study was undertaken to understand the relationship between perception of organizational justice and organizational commitment among employees in Inland Revenue Board of Malaysia (IRBM) in Sabah branches. The independent variables are dimensions of organizational justice which are distributive justice, procedural justice and interactional justice while the dependent variable is organizational commitment. This study used convenient sampling technique. The data were analyzed using several statistical analyses including factor analysis, reliability analysis, and multiple regressions analysis. Distributive justice has positive and significant relationship with organizational commitment but procedural justice and interactional justice have insignificant relationship with organizational commitment. The result of this study proves that the perception of organizational justice among employees in Inland Revenue Board of Malaysia is moderate to organizational commitment. The finding of this study provides the managers in Inland Revenue Board of Malaysia with ways to increase the employees' commitment towards the organization.



## **ABSTRAK**

*Kajian ini dibuat bertujuan bagi memahami hubungan diantara sifat persepsi keadilan organisasi dan komitmen organisasi di kalangan pekerja Lembaga Hasil Dalam Negeri di cawangan-cawangan negeri Sabah. Pembolehubah tidak bersandar adalah dimensi-dimensi keadilan organisasi iaitu keadilan pembahagian, keadilan prosedur dan keadilan interaksi manakala pembolehubah bersandar ialah komitmen organisasi. Kajian ini menggunakan teknik persampelan mudah. Data dianalisa menggunakan beberapa analisa statistik termasuk analisa faktor, analisa kebolehpercayaan dan analisa berganda. Keadilan pembahagian mempunyai hubungan yang positif dan signifikan dengan komitmen organisasi tetapi keadilan prosedur dan keadilan interaksi tidak signifikan dengan komitmen organisasi. Hasil kajian ini membuktikan persepsi keadilan organisasi di kalangan pekerja Lembaga Hasil Dalam Negeri hanya sederhana terhadap komitmen organisasi mereka. Hasil kajian ini juga memberi pengurus-pengurus di dalam Lembaga Hasil Dalam Negeri dengan cara untuk meningkatkan komitmen pekerja terhadap organisasi.*



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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of Study**

The organization's performance is usually related to the commitment of its employees to the collective values of the organization. In a new approach of management and organizational behavior, committed employees considered one of the most basic factors of organization's success.

Nowadays, organizations are filled with educated employees, the 'better-educated, the better skilled,' the higher their expectation to be considered more respected and treated more politely. Considering the complexity and variety of the activities in today, the activities beyond one's formal duties and responsibilities are necessary. The most important asset in organization is its human resource. The way of managers behave and treat them will affect their future attitudes and behaviors (Jafari and Bidarian, 2012).

In order to improve organizational work outcomes, like commitment, the perception of justice is one of the main factors to which employees respond most sensitively (Haider, Ahmad and Malik 2014). There are numerous studies (will be discussed in Chapter 2) conducted on organizational justice and its relations with organizational commitment.

Most of the studies conducted on western culture and recently there are studies conducted in Asia but still a few for Malaysian context. Therefore, this study will try to add the literature in Malaysia in examining to what extent perception of organizational justice dimensions have impact on organizational commitment in Malaysia culture, particularly in the government agency which is the Inland Revenue Board of Malaysia officers in Sabah branches.



### **1.1.1 Overview of Organizational Commitment**

Organizational Commitment has been a popular subject studied among researchers and practitioners for a long time. This area of study is focused by many researchers since better understanding of organizational commitment and the factors associated with the commitment among the employees is important to improve the management decision and improve employees' performance (Crow, Lee and Joo, 2012). High organizational commitment can be translated into both a superior in-role and extra-role performance (Jaramillo, Mulki and Marshall, 2005) and likely become the better employees (Crow et. all, 2012). The fact that employees want to remain in the organization will lead them to perform more effectively to achieve the organization goal (Meyer, Kam, Goldenberg and Brener, 2013).

Other than high performance, Ugboro (2006) and Neineger, Lehmann-Willenbrock, Kauffeld and Henschel (2010) in their study stated that high job satisfactions, lower turnover intentions and altruism also are consequence of organizational commitment and these behaviors can be developed after they feel committed to the organization

Meyer et. all, (2013) suggested that organization has to examine how they recruit, select and socialize employees in order to get a better commitment for employee. Organization's ability to realize the performance objectives depends, to commitment and the morale of employees (Ugboro, 2006). Keeping employees committed to their organization is a top priority for many contemporary organizations (Neineger et. all, 2010).

Lack of commitment to the organization can bring a negative effect to employee such as lower performance level and job satisfaction, and it can influence other employees, for example, the senior officers who are lack of commitment and good attitude will influence the new officers through the socialization process (Crow et. all, 2012).





### 1.1.2 Overview of Organizational Justice

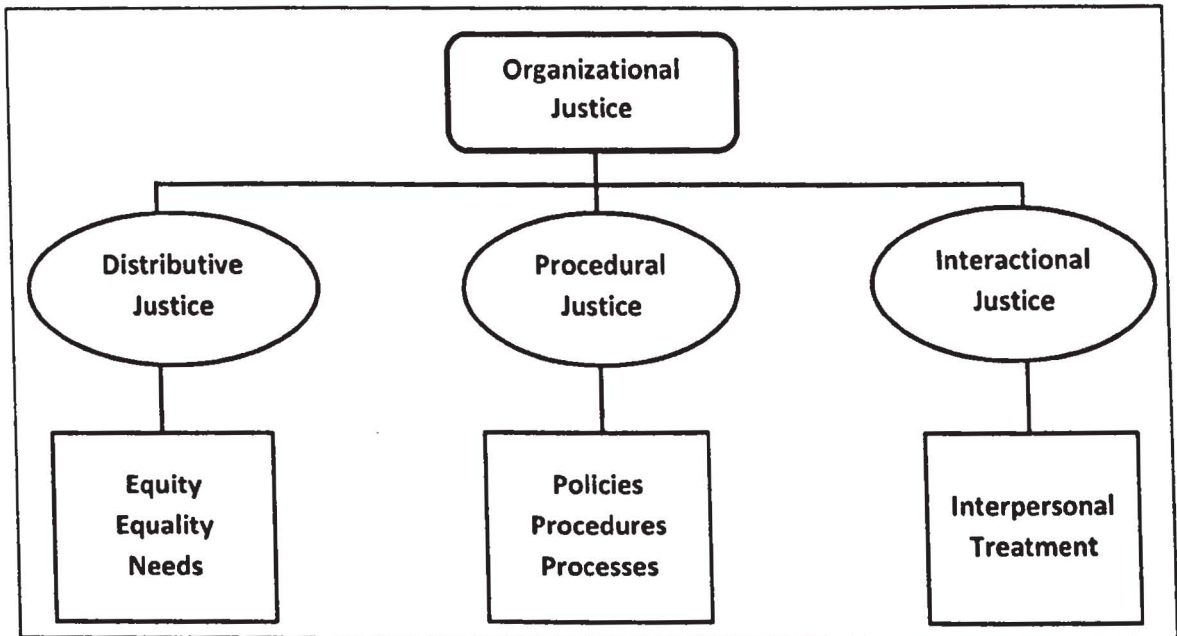
Organizational justice is the study of people's perception of fairness in organizations. The early study of fairness focused on distributive justice emphasize on the outcome done by Adam (1965). He studied the perception of equitable or inequitable that may be compared within and outside the organization. The procedural justice research leads to another concept, procedural justice, since there are finding showed that distribution of outcomes was not always is important as the process of determining and allocate the outcomes. These two dimensions of justice later added with Interactional justice since there are concerns on how the managers treat and communicate to their employees (Colquitt, 2001).

According to Cohen-Charash and Spector (2001), organizational literatures more focus on three specific forms of justice perceptions include distributive justice (perceived fairness of outcomes); procedural justice (perceived fairness of the process in determining the outcomes); and Interactional justice (perceived on behavior of management towards the employees). Although there are different and debates between researcher on forms and dimension of organizational justice and whether to use two, three or four dimension of justice, a meta-analysis done by Cohen-Charash & Spector (2001) suggested a distinction between these three forms is merited. Figure 1.1 illustrates the dimensions of organizational justice and the interrelatedness.

Employees evaluate the behavior of a manager towards them and also the motive underlying that behavior and treatment. Some employees might consider the manager's behavior in performance evaluation, or willingness to provide them with special resources in order to complete their task, but others might consider the manager's willingness to provide them with additional opportunities in their career. (Lamastro, 1999).

Justice perceptions is important since studies done show that it is related to a range of work behavior, including performance, turnover, and commitment (Cohen-Charash & Spector, 2001). Any bad evaluation and justice perception among the

(Chou, Chou, Jiang and Klien, 2013). Therefore, organizations should pay more attention to their system on how manager behaves towards employees, how processes are determined, and how outcomes such as rewards are distributed (Heponiemi, Elovainio, Kouvonen, Kuusio, Finne-Soveri and Sinervo, 2013).



**Figure 1.1: Organizational Justice.**

**Source: adapted from Coetzee (2005)**

### **1.1.3 Overview of Inland Revenue Board of Malaysia**

The Inland Revenue Board of Malaysia is one of the main revenue collecting agencies of the Ministry of Finance. On 1 Mac 1996, the Inland Revenue Board of Malaysia was established with the Inland Revenue Board of Malaysia Act 1995 as a statutory board under the Ministry of Finance. With this conversion, IRBM was incorporated to take over the functions previously performed by the Inland Revenue Department.

The conversion was done to give Inland Revenue Board of Malaysia the autonomy and flexibility to manage its personnel and financial resources as well as to improve the quality and effectiveness of the organization. In other words, the conversion marked more than a change in name or a change in the organization. It was

a change towards achieving excellence in service to the nation and its people in the area of tax administration.

Functions of the Inland Revenue Board of Malaysia:

- a. To serve as a Government agent and to provide services in the administration, assessment, collection and enforcement of income tax, petroleum income tax, real property gains tax, estate duty, stamp duty and other taxes agreed upon between the Government and the Board;
- b. To provide advisory services to the Government on matters regarding taxation and to work with the ministries and relevant statutory bodies on such matters;
- c. To participate in meetings, discussions and agreements on matters relating to local and international taxation;
- d. To serve as a collections agent for and on behalf of any statutory body in recovering loans payable to it under any written law; and
- e. To carry out any other function given to the IRBM under any other written law.

Inland Revenue Board of Malaysia responsible in collecting direct tax in Malaysia by using authority from the following laws:

- a. Income Tax Act, 1967;
- b. Real Property Gains Tax Act, 1976;
- c. Promotion of Investments Act, 1986;
- d. Stamp Act, 1949;
- e. Petroleum Act (Income Tax), 1967; and
- f. Labuan Business Activity Tax Act, 1990.



For year 2014, Direct tax revenue collection is expected to contribute RM133.148 billion, which is 77% of the total tax revenue or 59% of the overall total revenue of Malaysia. The estimate for income tax is expected at RM125.664 billion, 5% higher than the 2013 revised estimate of RM120.073 billion. The increase is in line with a higher GDP growth within the range of 5.0% - 5.5% in 2014.

The 2014 estimate for company income tax is expected at RM65.729 billion, 9% higher than the 2013 revised estimate of RM60.431 million after taking into account the allocation for tax refunds amounting to RM7 billion in 2014. Revenue from personal income tax is estimated to increase to RM28.746 billion or 9% higher than the revised estimate for 2013 of RM26.429 billion. This is in tandem with the forecasted growth of the GDP as well as enforcement and auditing activities by the Inland Revenue Board of Malaysia and higher compliance by taxpayers.

The 2014 estimate for petroleum income tax is expected to decrease by 7% to RM28.275 billion compared to the 2013 revised estimate of RM30.507 billion. The lower 2014 revenue estimate is due to expected decrease in the average crude oil price from USD115.00 per barrel in 2013 to USD110.00 per barrel in 2014. Direct tax revenue estimates for 2014 are provided in Table 1.2.

Even though the estimated target revenue from direct tax is RM133.148 billion which will be collected by Inland Revenue Board of Malaysia, but according to Deputy Finance Minister Datuk Ahmad Maslan, The Inland Revenue Board of Malaysia aims to collect RM140.150 billion taxes in year 2014, up from RM128.9 billion in 2013, said. He expressed optimism that the target is achievable, saying RM41.5 billion has already been collected as at April 30 2014 (Bernama, 2014).



Source of Revenue	2013 Revised Estimate	2014 Budget Estimate	Change	Percentage of Change
	(RM Million)	(RM Million)	(RM Million)	(%)
<b>INCOME TAXES</b>	<b>120,073</b>	<b>125,664</b>	<b>5,591</b>	<b>5</b>
Individual	26,429	28,746	2,317	9
Company	60,431	65,729	5,298	9
Petroleum	30,507	28,275	(2,232)	(7)
Withholding	2,328	2,524	196	8
Cooperatives	357	370	13	4
Others	21	20	(1)	(5)
<b>OTHER DIRECT TAXES</b>	<b>6,947</b>	<b>7,484</b>	<b>537</b>	<b>8</b>
Stamp Duty	6,214	6,693	479	8
Real Property Gains Tax	653	703	50	8
Others	80	88	8	10
<b>DIRECT TAXES</b>	<b>127,020</b>	<b>133,148</b>	<b>6,128</b>	<b>5</b>

**Table1.1: Direct Tax Revenue**

**Source: Treasury memorandum on The Federal Governments Revenue Estimates For 2014**

In order to achieve the goal as the main contributor for government's revenue, Inland Revenue Board of Malaysia has to motivate the employees and get their commitment in doing the task. Tan Sri Dr. Mohd Shukor bin Mahfar, Chief Executive Officer/Director General of Inland Revenue Board of Malaysia stated in his note in Inland Revenue Board of Malaysia Financial Statement 2011:

*The driving force behind the IRBM is its employees. The IRBM's ability to perform its duty as the Government's tax collector depends on its employees, who determine its success or failure in fulfilling the Government's aspiration to attain the status of a high-income, developed economy. As such, the role played by Inland Revenue Board of Malaysia employees is critical to this success and needs to be further enhanced by a change in attitude towards work, improvement in the working environment and a positive sense of teamwork.*

He added in his 2013 CENSOF Global Conference keynote:

*We must also put more emphasis on Human Governance. We must understand, what motivates, influences and affects human behavior, that is, the people within our organization.*

These statements show that Inland Revenue Board of Malaysia put its priority in enhancing the employees' commitment to do their task by enhancing the attitude, working environment and organization policies.

## **1.2 Research Problem**

A review of past literatures has revealed that organizational justice normally has positive relationship with organizational commitment like the research done by Chou et. al (2013), Heponiemi et. al (2013), Guh, Lin, Fan and Yang (2013), Jafari and Bidarian (2012), Crow et. al (2012), Herda and Lavelle (2011), and many others.

The factors like different culture, value and beliefs of the employees can affect the management policies and also the employees' perception towards the management policies, for example, in high power distance nations where subordinate are unquestioningly taking orders from their supervisors (Humborstand and Perry, 2011). In China, the influence of interactional justice from managers on employees is much stronger than that in the Western countries (Wang, Liao, Xia and Chang, 2010). The finding of the study done by Crow et. al (2012) using sample of South Korean police officers but it is not known if the finding may apply to other public sector and law enforcement in other countries which have different culture. Meyer, Stanley and Paryonova (2012) suggested that more research are required including the need for more primary studies, particularly from underrepresented geographic regions and countries.

In Malaysia, there a few recent research in organizational justice and organizational commitment like study done for teachers in Selangor (Fatimah, Amiraa and Halim, 2011), employees in small and middle size company in Klang Valley (Fatt, Khin and Heng, 2010) and auditors in audit firm (Leow and Khong, 2009).





This study will cover for employees in the government agency in Malaysia, which is Inland Revenue Board of Malaysia as a law enforcement agency for tax collection, particularly in Sabah branches. This is to explore the level of organizational justice and organizational commitment and also the relationship between organizational justice and organizational commitment in Inland Revenue Board of Malaysia to add more literature for this kind of research.

### **1.3 Research Question**

The following are key questions that are needed to be addressed for this study:

- a) What is the level of Organizational Justice in Inland Revenue Board of Malaysia?
- b) What is the level of Organizational Commitment in Inland Revenue Board of Malaysia?
- c) Is there a relationship between employees' perception of distributive justice and organizational commitment?
- d) Is there a relationship between employees' perception of procedural justice and organizational commitment?
- e) Is there a relationship between employees' perception of interactional justice and organizational commitment?

### **1.4 Research Objective**

The objective of this study is to determine the relationship between perception of organizational justice and organizational commitment among Inland Revenue Board of Malaysia officers in Sabah branches by measure:

- a) Level of Organizational Justice in Inland Revenue Board of Malaysia;
- b) Level of Organizational Commitment in Inland Revenue Board of Malaysia;
- c) Relationship between employees' perception of distributive justice and organizational commitment;
- d) Relationship between employees' perception of procedural justice and organizational commitment;

- e) Relationship between employees' perception of interactional justice and organizational commitment.

## **1.5 Scope of Study**

Malaysia economy is expected to grow in 2014, and tax collection will be expected to increase compared to the previous years. As the direct tax collection target which set by government to Inland Revenue Board of Malaysia is increased, the management has to ensure that the employee remains committed to the organization in doing their task. Therefore, It is important to know the level of organizational commitment of these employees and the relationship between their perception of organizational justice and organizational commitment to enable the management make the suitable policies and procedures to enhance the commitment of the employees.

This paper is a quantitative study of the employee's perception of organizational justice to organizational commitment, whether they feel committed to their organization due to their perception of organizational justice. The study will focus on Inland Revenue Board of Malaysia in Sabah branches. The target population is selected at this location due to constraints of time and cost will be governed throughout the research.

## **1.6 Significance of Study**

The finding of this study can be used to facilitate other researchers in understanding the relationship between organizational justice dimensions (procedural justice, interactional justice and distributive justice) and organizational commitment. Even though there are previous study related to the issues, but this study will focus on employees in law enforcement agency in Malaysia which will fill some of the literature gap due to lack of studies have been done in this such agency in Malaysia before and also lack of this kind of studies have been done in Sabah.

For the management in Inland Revenue Board of Malaysia, the knowledge from this study can be used to assist them to implement an appropriate policy that can



improve the commitment in their employees to achieve the goal of the organization. This will benefit for both the organization and employees.

## **1.7 Definition of Variables**

In undertaking this study, the key terms and related definition used are as below:

### **1.7.1 Independent Variable**

The dimensions of organizational justice as the independent variables are:

#### **1.7.1.1 Distributive Justice**

Employee's perception of fairness of outcomes such as equity, equality, and needs (Cohen-Charash & Spector, 2001). The purpose of decision based on equity is to achieve high productivity and high commitment. The equality is used to preserve social harmony and the needs rule is used to foster personal welfare.

#### **1.7.1.2 Procedural Justice**

Employee's perception of the methods or procedures used include decision criteria, voice, control of the process (Cohen-Charash & Spector, 2001). Procedures that provided employees with opportunities to influence a decision were perceived as fairer than procedures that denied process control.

#### **1.7.1.3 Interactional Justice**

Employee's perception of the interpersonal treatment received, whether they are treated with sensitivity, honesty, dignity and respect, and also the nature of the explanations given (Cohen-Charash & Spector, 2001). This refers to employees' sensitivity during the enactment of organizational policies and procedures.

### **1.7.2 Dependent Variable : Organizational Commitment**

Psychological attachments of an employee to an organization which can be presented by indicators like loyalty to the organization, internalizing the goal of the organization and dedicate oneself to the organization (O'Reilly and Chatman, 1986)

## **1.8 Organization Report**

This thesis consists of five chapters. The first chapter provides an overview of the research by outlining the research background, overview of a study, research problem, research objectives, research questions, significance of research, scope of study and definition of key terms.

This will be followed by second chapter that reviews the literature on organizational justice and organizational commitment. Three dimensions of organizational justice which are distributive justice, procedural justice and interactional justice will be reviewed along with organizational commitment.

Based on the literatures in Chapter 2, the theoretical framework of the study will be developed in Chapter 3. In this chapter also, the methodology of the study will be presented with the research hypotheses and measurement that to be used. The research design, sampling design, questionnaire design, and statistical method will be discussed to in this chapter.

Chapter 4 will provide detailed results of the statistical analyses that will be carried out to test the hypotheses of the study. The analysis of the data will include demographic information and statistical analyses (factor analysis, reliability analysis, descriptive analysis, and regression analysis).

Chapter 5 will show and elaborate the finding of the study and the discussion will provided with reference to the population. After that, the conclusions will be established with respect to the objectives of the study.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provides a review of literatures related to the research objective of the study. It will begin with an extensive review on literature associated to the main theory applied in this study, the organization commitment and organizational justice which consists of distributive justice, procedural justice and interactional justice.

#### **2.2 Organizational Commitment**

The study of organizational commitment has a long story which researchers were focusing on attachment that form between employees and their organization (Mowday, 1998). Mowday and Porter in 1980s defined organizational commitment as an overall strength of employee's identification with and involvement in the organization. They came with three components of organizational commitment which are a strong belief in and acceptance of organization's goals and values; a willingness to exert considerable effort on behalf of the organization; and, a definite desire to maintain as an organizational member (Mowday, 1998).

Chatman & O'Reilly (1986) in their study defined the organizational commitment as the employees' psychological attachment with identification and involvement to an organization which is the psychological bond linking the individual and the organization. The basis for the psychological attachment to an organization can be categorized into three: compliance (instrumental involvement for specific rewards); identification (involvement based on a desire for affiliation); and internalization (involvement predicted on congruence between individual and organizational values).

Meyer and Allen in 1991 later developed three forms of commitment which are affective commitment (refers to the emotional attachment, identification and involvement in organization), continuance commitment (refers to willingness to remain



in the organization due awareness to costs of leaving or rewards for staying and normative commitment (reflects a felt obligation to remain in organization). These three forms of commitment also called as a three-component model (TCM) of organizational commitment which can take multiple forms, each characterized by different psychological state or mindset. (Meyer et. al, 2012)

The three forms approach provide a way of understanding the structure and nature of employees' commitment given that the bond to their profession and also to their organization (LaMastro, 1999) but three forms of commitment may be considered as components within a commitment profile because employees can experience all three forms of commitment to varying degrees but it might interact to influence behavior (Meyer et. al, 2012).

According to Mowday (1998), there is an overlap in the way that O'Reilly and Chatman (1986) and Meyer and Allen (1991) conceptualization of organizational commitment. However, the approach of O'Reilly and Chatman (1986) internalization dimension is similar with Meyer and Allen (1991) concept of affective commitment.

## **2.3 Organizational Justice**

The employees' justice perception would have a greater impact on feelings of pride to represent the organization and as a member of organization (Lipponen, Koivisto and Olkkonen, 2005). Basically, organizational justice has three components including distributive, procedural, and interactional justices. The long and the short of it is that various types of justice directly affect how people feel in their organizations. Organizational justice is a very important variable to consider when examining employees motivation and commitment.

The findings on distributive justice suggested that employees experienced the increased in job stress when they feel outcomes are unfair. Employee may become irritated when others receive similar outcomes regardless of perceived differences in work inputs. When they make comparisons of their work outcomes, given their inputs,

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