Impact of Organizational Justice on Organizational Performance in the Hospitality Industry

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Abstract: This research aims to analyze application of organizational justice on hospitality service sector business and its effects on organizational effectiveness and performance. This research was conducted at star hotels in Badung Regency, Bali Province Indonesia with 141 units as the research population. The samples were determined by purposive with sample collection error level of 10%, so, it selected 60 hotel units as the research samples. Respondents in this research are line managers or supervisors. Data were analyzed using Partial Least Square Path Modeling (SEM PLS) Model and processed using SmartPLS Version 3.2.6 Package. Results of the research found out that all of studied variables have strong effects, organizational justice affects positively and significantly on organizational effectiveness, also on organizational performance. Meanwhile, organizational effectiveness was found out to have positive and significant effects on organizational performance. In mediation test, it is found out that organizational effectiveness mediates the organizational justice effects on organizational performance.

Key words: Organizational justice organizational effectiveness organizational performance, hospitality industry, Bali-Indonesia, SEM PLS, organization, justice

INTRODUCTION

Creating a convenience working situation in an organization is a dream for its members, since, a convenience working situation will give effects on their happiness and satisfaction in doing their jobs. According to Elamin and Alomaim (2011) one of the factors that can increase one’s employee satisfaction in working is justice factor. Each person believes that being fair depends on all requirements in shared agreement. Behavior in meeting the agreement is interpreted as a fair action meanwhile violating is considered as not fair.

Employees feeling and considering their working place organization is fair when they believe that they achieve fair results and procedures based on the input they give. Cromanzano et al. (2007) mentioned that organizational justice can improve individual performance, create citizen behavior, good mental health, decrease stress level and various better individual attitudes which lead to achievement of maximum work productivity.

Likewise on the performance of hospitality services sector, they continue to try to provide customer satisfaction by providing professional services, especially, in star-hotels that have the same pattern and level of work as international class hotels. Such hotel management believes that loyal employees will give their efforts to increase the number of loyal customers to use their services. There are many research giving evidences on the application of organizational justice which can influence on the performance of individual employee which in turn influence on their job satisfaction. Satisfied employees at work will influence on organization effectiveness and performance of overall organization.

This research aims to analyze the application of organizational justice in star hospitality service sector in Bali Indonesia. Increasing star-hotel development growth recently certainly provides effects on increasing rapid and competitive competition in hospitality industry. According to Anshori (2010) star-hotel manager parties are required to make sustainable innovation to meet their customer desire and needs in order to maintain business sustainability as well as competitive advantage. There are many works to be done through organizational intern service improvement, so that, it can improve their employee performance. There are some studies finding out that creating justice perception for their employees will encourage their emotional feeling positively in their works, ultimately can create work satisfaction (Elamin and Alomaim, 2011). It means satisfied employees will work to improve their performance which ultimately gives effects on organizational performance overall.

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Literature review

Organizational justice: There are many studies and researches about term or definition of organizational justice by many experts. Organizational justice can cover any issues related to perceptions of fair salary, similar opportunities to obtain promotion of career rank increase as well as appropriate selection procedure (Tabibnia et al., 2008). According to Colquitt (2001) organizational justice is centered to the effects of managerial decision making, quality perception, justice effects, effects of individual and situational factors as well as describes individual justice perception in the organizational. Usmani and Jamal (2013), mentioned higher sense of justice received by employees will create higher sense of binding by employees to the organization. Gibson et al. (2012) defined organizational justice as an individual level of sense to be treated the same or equal in their working place organization.

Based on some arguments expressed by some expressed before, it can be concluded that organizational justice is a realization referring to employee perception at the justice that they receive in an organization or form of employee evaluation on organizational behavior toward themselves in the form of fair actions to obtain results, process in a fair manner as well as justice forms of impersonal treatments to each employee.

Organizational effectiveness: There are many definitions of organizational effectiveness proposed by many experts, among of which is by Schermerhorn et al. (2004) stating that it is a condition or capability in doing a job by human to provide expected use value. Similar to the definition, Balduck and Buelens (2008), mentioned that organizational effectiveness can be stated as level of business success in achieving purposes and targets. Then, Lawler (2005) in his study, mentioned that organizational effectiveness can be seen from results of planned program achievement and accountability. This is prioritized on purpose achievement and targets based on organizational vision and mission, result achievement based on purpose and assignment to stakeholders that they have achieved any expected results. Meanwhile, Baker and Branch (2002), stated that organizational effectiveness is the level in which organizational can achieve its purpose and how well the process has been done to achieve the purpose.

Based on some definition expressed by some experts above, it can be seen that organizational effectiveness is very essential concept in an organizational assessment, since, it can provide a description on an organizational success in achieving its targets. It can be said that organizational effectiveness is a level of purpose achievement of activities that have been applied compared with the predetermined targets.

There are many approaches expressed by some experts related to the implementation of organizational effectiveness assessment and its measurement. Balduck and Buelens (2008), proposed four main approaches that can be used as measuring tools of organizational effectiveness namely the goal approach, the systemic approach, the process approach and the strategic constituency approach. Meanwhile, Kreaiphetch et al. (2011) in organizational effectiveness measurement in education institutions in Thailand focused on input, process, output and feedback conducted by an organization. It reflects the amount of resources input can conduct any processes to obtain planned results and feedback from related stakeholders.

Organizational performance: According to Irham (2011), performance is the results obtained by an organization during certain period. Moheriono (2012) defined performance as a description on level of achievement in an activity or policy program implementation in realizing targets, purposes, vision and mission of an organization that is presented in strategic planning. Meanwhile, Mathis and Jackson (2011) mentioned that basically, performance is what have done and have not done by employees to achieve predetermined targets. Rees and McBurn (2004) mentioned performance as achievement of difficult targets as well as ways in creating measured working outcomes. In a wider manner, Bhaya (2010) expressed that performance is an individual action or behavior as part of actual work function in an organization, based on tasks and responsibilities in certain period to achieve organizational purpose.

Organizational performance assessment can be done through some points of views that can be taken from many researchers which most conclude that organizational performance is multidimensional and complex. This research refers to measurement tool from perspective of balance scorecard regarding organizational performance should be seen from various directions or various perspectives both financial and non-financial aspects including within and outside the organization, namely customers.

Balance scorecard that was proposed by Kaplan and Norton that then was used in a research by Desak Ketut (2010) has four perspectives that are used to measure performance of a company as known as financial and non-financial perspective. This theory describes that financial perspective considers organizational performance from viewpoints of profitability, financial
target achievement that is planned by the organization. This perspective consists of income growth, productivity growth, cost saving and asset utilization, process perspective of intern business aims to express all of new processes that must be mastered by a company. This perspective consists of increased innovation, operation process and post-sale service, customer perspective is an indicator showing organizational customers and inversely, this can be seen from customer level of satisfaction. This perspective includes customer satisfaction, customer acquisition (level of company capability to attract customers), customer retention, market targets, customer profitability learning and growth perspective. It is taken from human resources and organizational procedure factors which plays a role in long term growth. This perspective includes increased personnel capability increased information system capability as well as motivation, empowerment and harmony.

**Research hypothesis**

**Effects of organizational justice on organizational effectiveness:** Increasingly higher competitive business environment development recently requires organizational foresight to increase employee work convenience leading to the success, this research can be seen as one of the applications of organizational justice leading to business effectiveness. There are many studies on the effects of both variables, among of which is by Acquah and Tukamushaba (2010), finding out the close related and significant effects of organizational justice on organizational effectiveness in which higher organizational justice level will lead to higher organizational effectiveness.

Choudhary et al. (2011) studying on organizational effectiveness through research satisfaction and organizational commitment indicators found out that the indicators provide positive and significant effects. Increasingly satisfied employees at their works and increasing employee commitment at an organization can be achieved in line with increasing level of organizational justice. Dayan and Colak (2008), obtained direct effects of organizational justice on organizational effectiveness. In line with this, Atif and Arslan (2014), conducting a research on telecommunication industry in Pakistan also found out that organizational justice has positive and significant effects on organizational effectiveness in the company.

Based on the description, then it can propose H₁ Hypothesis: organizational justice provides positive and significant effects on organizational effectiveness.

**Effects of organizational justice on organizational performance:** Justice aspect plays a great important role in an organization, since, there can be effects if there is no justice in an organization. As an example, if in an organization, manager acts in an injustice manner, then this can provide effects on low level of employee commitment. This in turn will give effects on organizational performance. Justice treatment to employee can be seen as an important component in increasing employee commitment to their working organization. Khan and Habib (2011) studying on organizational justice in universities in Pakistan also found out positive effects of procedural justice on organizational performance. Organizational performance indicators in the research used level of turn over, trust at the management and employee work satisfaction. Higher procedural justice will lead to more increased employee trust and work satisfaction as well as decreased turn over level in the organization.

Fatt et al. (2010) studying on organizational justice at the employees in managerial and non-managerial levels found out significant effects of procedural justice and interactional justice on organizational performance. It used performance indicators, namely employee motivation level, employee commitment and turn over level. Further, a research by Wu and Chaturvedi (2009) found out positive effects of organizational justice on organizational performance. Employees feeling sense of justice in their organizational will be more motivated to work maximally in achieving final performance of organization in where they work.

Based on the description, then it can propose H₂ Hypothesis: organizational justice provides positive and significant effects on organizational performance.

**Effects of organizational effectiveness on organizational performance:** Performance is a level of organizational success. Organizational effectiveness has been used as key word in an organization in which organizational effectiveness will be competitiveness in current business competition. According to Haid et al. (2010), creating and achieving organizational effectiveness, it is necessary for organizational leaders to focus to harmony and involve their people employee engagement, people management in a strategic manner. Results of the research indicate that employee engagement is important as the focus of organizational effectiveness. It is known that organizational engagement can lead to increased financial performance increased customer satisfaction and maintained employee retention. In other words, organizational effectiveness through employee engagement can lead to increased business outcomes.

Ambroz and Praprotnik (2008) found out significant effects of both variables. Organizational performance with
increased customer satisfaction can be found at increased effectiveness. Then, it is emphasized that organizational effectiveness is an important variable to improve organizational performance. Likewise, a research by Brown et al. (2005) also confirmed significant effects between organizational effectiveness and trust or customer trust as indicator of sustainable organizational performance.

Based on the description, then it can propose H₃. Hypothesis: organizational effectiveness provides positive and significant effects on organizational performance.

**MATERIALS AND METHODS**

This research was conducted on star hotels in Badung Regency, Bali Province. Selection of research locations in Badung Regency because out of 9 regencies in Bali, Badung Regency has the most star hotels compared to other regencies. Classification of these hotels is three-five star hotels.

There are 141 hotel units as the total research population while samples were taken using traditional statistical model approach from Yamane with a 10% of sampling error, the number of targeted samples in this study is 60 hotels. The respondents are line managers or supervisors from different departments or divisions have the capacity or ability to know organizational performance condition are directly involved in company’s strategic decisions and know its subordinate condition. Then, out of the criteria, there are selected three different divisions, namely marketing division, operational division and human resources division. These divisions are predicted to be able to answer research instruments related to this research.

Measurement of organizational justice in this study used and developed by Colquitt (2001) and Inoue et al. (2009), using four instruments of justice, namely procedural, distributive, interpersonal and informational.

Measurement of organizational effectiveness level refers to three indicators of measurement from Knaipetch et al. (2011) giving priority to the assessment

<table>
<thead>
<tr>
<th>Organizational justice</th>
<th>Organizational effectiveness</th>
<th>Organizational performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>X₁ 0.771 Y₁₁ 0.730 Y₁₂ 0.836</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X₂ 0.952 Y₂₁ 0.789 Y₂₂ 0.586</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X₃ 0.769 Y₃₁ 0.802 Y₃₂ 0.807</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X₄ 0.961 Y₄₁ 0.865</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 2: Convergent validity result**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Composite reliability</th>
<th>AVE</th>
<th>Communality</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational justice 0.822 0.883 0.655 Reliable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational effectiveness 0.702 0.834 0.626 Reliable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational performance 0.780 0.860 0.611 Reliable</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Data processed from the beginning of planning, during the process and at final achieved results. The indicators used include input process outcomes.

Organizational performance measurement refers to the balance scorecard method from which was also used by DesakKetut (2011) research, namely, financial perspective, internal business perspective, customer perspective and learning and growth perspective.

The data was analyzed using Partial Least Square Path Modeling (SEM PLS) Model and processed with SmartPLS Conversion 3.2.6. The conceptual framework of this research is presented in Fig. 1.

**Construct validity and reliability tests**: Before the data is used, there is initial test to find out whether the data from the questionnaire is valid or reliable. For validity testing results of the outer model testing with a level of validity above 0.50. In Table 1, all tested items have an outer loading more than 0.50, so that, all items can be used.

While the results of reliability testing of research data in Table 2 show that all constructs have a Cronbach’s alpha coefficient more than 0.60, a composite reliability coefficient more than 0.70 and a coefficient of AVE and communality more than 0.50. Thus, all measurement models used in this study already have high validity and reliability.

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![Research conceptual framework](image)
RESULTS AND DISCUSSION

This research hypothesis model is calculated using SmartPLS Version 3.2.6 to determine the significance level of path coefficients presented in the model or significance of hypothesis support (Ghozali, 2008). It is determined that the path coefficient is significant if $p$ is found <0.05 and very significant if the $p<0.01$. A summary of the path coefficient results in the inner model is described in Table 3.

In testing the indirect effects of organizational justice on organizational performance can be seen in Table 4. Examination results of these variable effects are proven to be mediated by organizational effectiveness with indirect effects of path coefficient of 0.117 and significant with $p$ value of 0.022. This means that organizational effectiveness mediates the effects of organizational justice on organizational performance. The results of data testing in Table 4 can be explained as follows:

**Effects of organizational justice on organizational effectiveness:** Inter-variable effects have positive coefficient. Calculation results show path coefficient of 0.377 with $t$-statistics of 2.489 and $p$ 0.007 ($p<0.05$) giving decision that organizational justice influences significantly on organizational effectiveness. In hospitality industry, strong organizational justice indirectly can describe organizational effectiveness. This result shows that 1st Hypothesis is accepted.

Creating enjoyable and convenience working situation in an organization is a dream for its members. Happy environment working situation will influence on organizational member happiness and satisfaction in doing the works. Each person believes that being fair depends on shared agreement. Employees with sense of justice will influence on their working motivation and productivity which later will influence on achievement of organizational final results. Kafayat and Ali mentioned that current higher competition in business environment development requires organizational foresight in order to improve employee working convenience to achieve success, the efforts one of which can be done through application of organizational justice leading to business effectiveness.

Both variable effects are very strong. These research results support a research conducted by Acquah and Tukumshaba (2010) finding out strong and significant effects of organizational justice on organizational effectiveness in which higher organizational justice will lead to higher organizational effectiveness. Also, according to Choudhry et al. (2011) studying on organizational justice and organizational effectiveness through work satisfaction and organizational commitment indicators found out that all indicators have positive and significant effects. Increasingly satisfied employees at their works and increasing higher commitment at the organization will be achieved by increased organizational justice. Higher organizational justice will lead to higher organizational effectiveness.

**Effects of organizational justice on organizational performance:** Inter-variable effects have positive coefficient. Calculation results show path coefficient of 0.311 with $t$-statistics of 2.605 and $p$ 0.005 ($p<0.05$) giving decision that organizational justice influences significantly on organizational performance. In hospitality industry, strong organizational justice can improve organizational performance. This result shows that 2nd Hypothesis is accepted.

These test results are also supported by respondents giving responses to questionnaires related to organizational justice that is delivered with mean of perception index includes in good category. Respondents give high responses in scale of three until five in Likert scale for the statement of procedural, distributive interpersonal and information justice application in the field. This application encourages growing sense of trust in the organization which will increase work productivity which ultimately can significantly achieve organizational performance. Wu and Chaturvedi (2009) stated that

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Table 3: Path coefficient on inner model

<table>
<thead>
<tr>
<th>Effect between variables</th>
<th>Path coefficient</th>
<th>$t$ statistic</th>
<th>$p$-values</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational justice: Organizational effectiveness</td>
<td>0.347</td>
<td>2.489*</td>
<td>0.007</td>
<td>Sig.</td>
</tr>
<tr>
<td>Organizational justice: Organizational performance</td>
<td>0.341</td>
<td>2.605*</td>
<td>0.005</td>
<td>Sig.</td>
</tr>
<tr>
<td>Organizational effectiveness: Organizational performance</td>
<td>0.349</td>
<td>3.149*</td>
<td>0.001</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

* nec = $p>0.05$ = Insignificant; * = $p<0.05$ = Significant

Table 4: Indirect effect test

<table>
<thead>
<tr>
<th>Effect between variable</th>
<th>Coefficient indirect effect</th>
<th>SD</th>
<th>$t$ statistic</th>
<th>$p$-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational justice: Organizational effectiveness</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Organizational justice: Organizational performance</td>
<td>0.117</td>
<td>0.059</td>
<td>2.026</td>
<td>0.022</td>
</tr>
<tr>
<td>Organizational effectiveness: Organizational performance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Data processed
employees with sense of justice in the organization will be increasingly motivated to work optimally in achieving organization final performance in which they research.

Acceptance of this hypothesis based on the test results illustrates that increasing organizational justice perceived by employees significantly improves organizational performance. These results support the research conducted by Fatt et al. (2010) which examined organizational justice for employees at managerial and non-managerial levels to find strong effects from these two variables. Lambert et al. (2007) also found strong positive effects of organizational justice on organizational performance. Khan and Habib (2011) who examined organizational justice in high school performance in Pakistan also found strong positive effects. Results of these previous studies show that higher implementation level of organizational justice by a company will lead to greater employee sense of trust and job satisfaction. This can reduce turnover rates and increase employee productivity affecting effect on improved overall organizational performance.

**Effects of organizational effectiveness on organizational performance:** Inter-variable effects have positive coefficient. Calculation results show path coefficient of 0.349 with t-statistics of 3.149 and p 0.001 (p<0.05) giving decision that organizational effectiveness influences significantly on organizational performance. In hospitality industry, strong organizational effectiveness can improve organizational performance. This result shows that the 3rd hypothesis is accepted.

These results are also supported by the answers given by the respondents at the proposed questionnaires. From the given answers, it can be seen decreased customer complains in the last 3 years. This indicates that good effectiveness level in star-hotels in Badung Regency, Bali influences significantly on increased organizational performance both financial and non-financial.

Results of this study support the research conducted by Ambroz and Praprotnik (2008) which found significant effects of two variables. There will be increased organizational performance when effectiveness increases. Assessment of organizational effectiveness through customer satisfaction indicates that these variables are very important to improve organizational performance. Similarly, Brown et al. (2005) confirmed significant effects between organizational effectiveness and customer trust as an indicator of sustainable organizational performance. In the study, conducted by Haid et al. (2010), it also mentions to achieve organizational effectiveness, it is necessary for organizational leaders to focus on aligning and involving people in the organization to produce improved financial performance, customer satisfaction and maintained employee retention.

**CONCLUSION**

From the results of data analysis conducted in this study, it can be concluded that all studied variables have very strong and significant effects. In particular, it is known that organizational justice has positive and significant effects on organizational effectiveness as well as on organizational performance. Meanwhile, organizational effectiveness is also found out to have positive and significant effects on organizational performance. The mediation test indicates that organizational effectiveness mediates the effects of organizational justice on organizational performance. In other words, the application of organizational justice and the implementation of organizational effectiveness through employee involvement can improve overall organizational performance.

**LIMITATIONS**

This research limitation is the use of limited indicators in each variable which only directing at organizational performance in service sector, so that, it cannot be generalized to all industry fields. Also, use of the variables in this research is too small to be used to assess service organizational performance that is influenced by many variables.

**RECOMMENDATIONS**

Thus, any subsequent studies can test individual performance as the dependent variable which is influenced by various analyzed variables in this study. This is because the application of organizational justice can change employees work behavior on the sense of fairness they feel at work which this can influence on their work level of productivity. For this reason, it is necessary to examine further the interrelations of all variables to determine employee job satisfaction or its influence on their work level of productivity in the organization.

**REFERENCES**


