The Effect of Discretionary Bonuses on Employee Performance through Organizational Justice and Agency Cost

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ABSTRACT

This study aims to analyze the effect of discretionary bonuses on employee performance through the mediating role of distributive justice, procedural justice, and agency cost in a state-owned enterprise subsidiary operating in port equipment maintenance services. The study employed a quantitative approach using census sampling of 110 employees. Data analysis used SEM-PLS through SmartPLS 4.0. Results showed that discretionary bonus has a positive significant effect on distributive justice (β=0.679), distributive justice has a positive significant effect on procedural justice (β=0.500), procedural justice has a negative significant effect on agency cost (β=-0.349), agency cost has a negative significant effect on employee performance (β=-0.221), and distributive justice, procedural justice, and agency cost serially mediate the relationship between discretionary bonus and employee performance with complementary partial mediation pattern (β=0.026). The research model explained 60.8% of variance in employee performance. This study concludes that discretionary bonus effectiveness depends on employees' fairness perception, thus its implementation should consider distributive and procedural justice principles to suppress agency cost and improve performance.

Keywords*: Agency Cost, Discretionary Bonus, Distributive Justice, Employee Performance, Procedural Justice.*

INTRODUCTION

State-Owned Enterprises (SOEs) play a strategic role in the Indonesian economy, contributing approximately 27% of the national Gross Domestic Product (GDP) and employing more than 700,000 employees in 2024 (Kementerian BUMN, 2024). As business entities carrying a dual mandate, pursuing profitability while serving public interests, SOEs and their subsidiaries face unique challenges in managing human resources (Muzapu et al., 2016). On one hand, they are required to perform highly and efficiently like private companies; on the other hand, they must maintain accountability, transparency, and fairness that are society's expectations of state-owned entities. These challenges become even more complex in strategic sectors such as ports, which are the backbone of national logistics and demand high-performance standards in terms of operational efficiency, safety, and service timeliness.

This study was conducted in an Indonesian SOE subsidiary specializing in port equipment maintenance with 110 employees that implements a performance-based compensation system, including discretionary bonuses of 15–30% of basic salary. An internal survey in 2024 showed that only 52% of employees were satisfied with the bonus system, mainly due to perceived lack of transparency, inconsistent evaluation, and unfair distribution. Despite an 18% increase in the discretionary bonus budget over the past two years, employee productivity has not improved, and engagement scores declined from 72% in 2022 to 65% in 2024.

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This problem becomes increasingly important considering the Ministry of SOEs Regulation Number PER-12/MBU/2020 which provides flexibility for subsidiary management to determine bonus components based on non-financial indicators. Although this regulation provides room for innovation in compensation systems, its implementation in the field shows significant variation in practices and often creates ambiguity in criteria and assessment processes. This ambiguity has the potential to trigger perceptions of injustice that can negatively impact motivation, commitment, and employee performance.

This research uses the agency theory framework which explains the contractual relationship between principal and agent, where the principal delegates authority to the agent to manage organizational resources (Jensen & Meckling, 2019). In the context of SOE subsidiaries, the principal is the parent company or state shareholders, while the agent is the management and employees who run the company's operations. Agency problems arise when there are differences in interests and information asymmetry between principal and agent, which can lead to agency costs in the form of monitoring costs, bonding costs, and residual loss due to opportunistic behavior (Eisenhardt, 1989).

Discretionary bonuses are contractual tools intended to align employee and organizational interests by allowing managers to reward non-quantifiable contributions such as teamwork, loyalty, creativity, and organizational citizenship. However, their effectiveness depends on employees' perceptions of fairness and transparency, as Boosey and Goerg (2020) show that discretionary bonuses enhance motivation and performance only under fair procedures. Organizational justice theory explains this through distributive and procedural justice, which are particularly critical in SOE subsidiaries where bureaucratic complexity and managerial subjectivity can heighten perceptions of unfairness, reduce motivation, encourage opportunistic behavior, and increase agency costs (Colquitt et al., 2001).

Most previous research on discretionary bonuses and organizational justice has been conducted in the context of the private sector or profit-oriented organizations in developed countries (Boosey & Goerg, 2020; Chen et al., 2023). Meanwhile, SOEs and their subsidiaries have unique characteristics that distinguish them from the private sector, namely the dual mandate that demands a balance between business objectives and social responsibility. Existing literature also tends to focus on direct relationships between compensation (including discretionary bonuses) and employee performance (Desky, 2023; Fulmer et al., 2023; Kusumo, 2024).

However, research that comprehensively explores the role of agency costs as an intermediary mechanism linking perceived fairness with employee performance is still limited. Yet, in the context of principal-agent relationships as occurs in SOEs, agency cost is a key concept that can explain how perceptions of injustice can trigger opportunistic behavior, unproductive influence activities, and ultimately reduce organizational efficiency and employee performance. This research aims to analyze and explain the mechanism of the effect of discretionary bonuses on employee performance through the mediating role of organizational justice (distributive justice and procedural justice) and agency costs in SOE subsidiaries engaged in port equipment maintenance services.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Discretionary Bonus on Employee Performance and Distributive Justice

Distributive justice refers to employees' perceptions of the fairness of rewards relative to their contributions. According to Equity Theory by Adams (1965), individuals assess fairness by comparing their input–outcome ratio with that of others, and a perception of balance indicates distributive justice. Discretionary bonuses, which allow managerial judgment beyond rigid formula-based schemes, provide a mechanism to recognize both quantitative and qualitative aspects of performance, such as discipline, initiative, teamwork, loyalty, and adherence to organizational values. This flexibility enables organizations to align rewards more closely with the overall value of employees' contributions. Empirical evidence supports this view, as Boosey and Goerg (2020) found

that appropriately designed discretionary bonuses enhance employees' perceptions that their efforts are fairly valued, while Chen et al. (2023) reported that compensation systems incorporating qualitative performance criteria significantly improve perceptions of outcome fairness.

Beyond fairness perceptions, discretionary bonuses also play an important role in enhancing employee performance. Enimola et al. (2022) demonstrated that financial incentives, including bonuses, have a significant positive effect on employee performance, emphasizing that such rewards motivate individuals to exert higher effort and sustain superior work outcomes. In the context of state-owned enterprises, Ministry of SOEs Regulation Number PER-12/MBU/2020 authorizes management to determine bonus components based on non-financial indicators, which is conceptually consistent with the discretionary bonus approach. When employees perceive that their comprehensive contributions are acknowledged and fairly rewarded, they are more likely to feel valued, motivated, and committed, which in turn leads to improved performance (Ngwa et al., 2019; Rudi et al., 2022). Therefore, discretionary bonuses are expected to positively influence both distributive justice and employee performance by aligning reward allocation with actual, holistic employee contributions.

H1: Discretionary bonus has a positive effect on employee performance
H2: Discretionary bonus has a positive effect on distributive justice.

The Effect of Distributive Justice on Procedural Justice

The relationship between distributive justice and procedural justice has long been debated in the organizational justice literature. While some scholars conceptualize them as distinct yet correlated dimensions (Colquitt et al., 2001). Meanwhile, others argue that distributive justice can causally influence perceptions of procedural justice (Cropanzano & Ambrose, 2015). This study adopts the latter view based on cognitive and relational perspectives. From a cognitive standpoint, employees use outcome information as a basis for evaluating the fairness of decision-making processes. When outcomes are perceived as fair, individuals tend to infer that the procedures producing those outcomes are also fair, whereas perceived outcome unfairness triggers skepticism toward the underlying procedures (Ambrose & Schminke, 2009).

From a relational and trust-based perspective, distributive justice fosters trust in management and the organization, which subsequently shapes evaluations of organizational processes. Colquitt and Rodell (2011) demonstrated that trust mediates the relationship between distributive justice and organizational attitudes, including procedural justice. Empirical evidence further supports this linkage. Chen et al. (2023) found a positive association between distributive and procedural justice in pay-for-performance systems, while Aryee et al. (2004) showed that distributive justice predicts procedural justice through trust in supervisors. In the context of discretionary bonuses, when employees perceive that rewards are proportionate to their contributions, they are more likely to believe that the procedures used to determine those rewards are fair, consistent, and objective. Accordingly, it is proposed that distributive justice positively influences procedural justice.

H3: Distributive justice has a positive effect on procedural justice.

The Effect of Procedural Justice on Agency Cost

Procedural justice plays a central role in shaping employee attitudes and behaviors toward the organization. Leventhal (1980) proposed six criteria of fair procedures, namely consistency, absence of bias, accuracy of information, correctability, representativeness, and ethicality. When organizational decision-making processes adhere to these principles, employees are more likely to perceive that they are treated fairly and with respect, which strengthens their acceptance of organizational outcomes and authority. From the perspective of the group engagement model, Tyler and Blader (2003) argue that fair

procedures enhance employees' identification with the organization and foster trust in management, thereby motivating individuals to act in ways that support organizational goals rather than purely personal interests.

From an agency theory perspective, procedural justice is also expected to reduce agency costs through several mechanisms. First, fair procedures discourage opportunistic behavior because employees believe that performance evaluations and reward allocations are conducted objectively, reducing incentives to engage in influence activities unrelated to actual performance (Boosey & Goerg, 2020). Second, perceptions of procedural fairness promote reciprocal behavior in the form of higher effort and organizational citizenship, while suppressing deviant and shirking behaviors. Empirical evidence by Gupta et al. (2023) shows that procedural justice increases organizational citizenship behavior and lowers workplace deviance. Furthermore, Chulkov (2023) found that fairness perceptions in incentive systems are negatively associated with indicators of agency costs. When employees trust that procedures are transparent and consistently applied, they are less likely to engage in self-protective actions that undermine efficiency, thereby contributing to lower agency costs (Chatzopoulou et al., 2024).

H4: Procedural justice has a positive effect on agency cost.

The Effect of Agency Cost on Employee Performance

Agency cost reflects the inefficiency arising from the misalignment of interests between the principal and the agent. Jensen and Meckling (2019) explain that agency cost is the sum of monitoring costs, bonding costs, and residual loss borne by the organization. At the individual level, agency cost is manifested in the form of employee behaviors that are not aligned with organizational interests. Opportunistic behavior as a component of agency cost directly impacts performance decline. When employees use organizational time and resources for personal interests or when they reduce work effort (shirking), the output and productivity produced will decline. Increased agency costs negatively correlate with operational efficiency and firm performance (Baykara & Baykara, 2021; Chulkov, 2023; Ahmed et al., 2023).

Non-productive activities (influence activities) also reduce performance through time and energy allocation mechanisms. When employees focus more on influencing supervisors' perceptions rather than improving actual performance, the time and energy allocated to productive tasks will decrease. Milgrom and Roberts (1988) explain that influence activities are a form of inefficiency that reduces the value created by the organization. Furthermore, high agency costs create a work environment that is not conducive to achieving optimal performance. Opportunistic behavior by some employees can lower the morale and motivation of other employees who act in the organization's interests. The perception that opportunistic behavior is tolerated or undetected can encourage other employees to behave similarly, creating a negative spiral that collectively reduces performance.

H5: Agency cost has a positive effect on employee performance.

The Mediating Effect of Distributive Justice, Procedural Justice, and Agency Cost

This study proposes that the effect of discretionary bonuses on employee performance operates through a serial mediation mechanism grounded in the integration of agency theory and organizational justice theory. From the agency perspective, discretionary bonuses function as contractual instruments to align the interests of agents and principals; however, their effectiveness depends on how employees perceive and respond to such incentives (Jensen & Meckling, 2019). Organizational justice theory complements this view by emphasizing that fairness perceptions shape employee reactions through social exchange processes. When employees perceive fair treatment, they reciprocate with positive attitudes and behaviors, whereas perceived injustice leads to negative responses and opportunistic actions that may increase agency costs (Blau, 1964).

Empirical evidence supports this integrative framework. Chen et al. (2023) demonstrated that distributive justice mediates the relationship between pay-for-performance systems and employee performance, while Lahlou-Kassi and Eddakir (2025) found that outcome fairness enhances organizational commitment and reduces turnover intention. Procedural justice further strengthens the effectiveness of incentive systems by ensuring transparency and consistency in evaluation processes, thereby reinforcing positive behavioral outcomes (Gupta et al., 2023). In discretionary bonus contexts, procedural fairness is particularly critical to prevent perceptions of subjectivity. Meta-analytic evidence by Colquitt and Zipay (2018) confirms that fairness perceptions are positively associated with organizational commitment and job performance. Accordingly, this study posits that perceptions of distributive and procedural justice reduce agency costs, which in turn enhance employee performance. Within state-owned enterprises oriented toward collective goals, discretionary bonuses supported by fair and credible processes can thus function as psychological and contractual mechanisms that strengthen goal alignment between employees and management.

H6: Distributive justice, procedural justice, and agency cost serially mediate the relationship between discretionary bonus and employee performance.

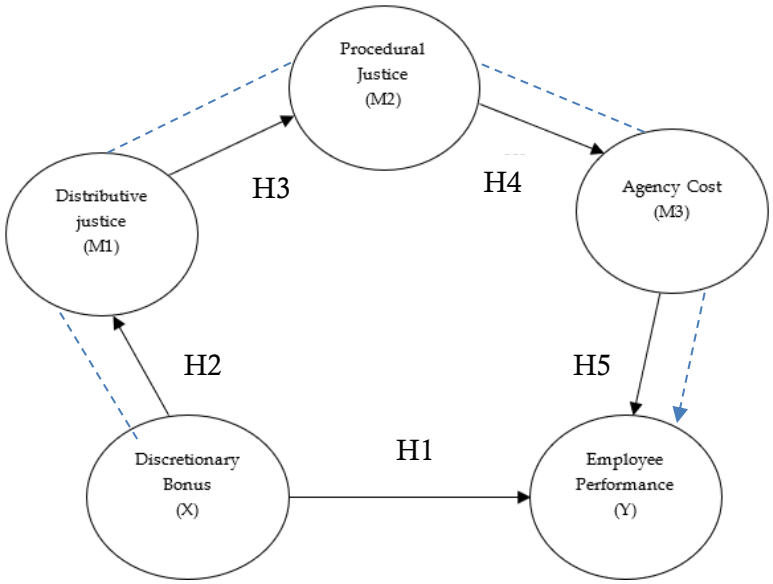

Figure 1. Conceptual Model

The research framework in Figure 1 posits that discretionary bonuses improve employee performance both directly and indirectly through a serial mediation process. Discretionary bonuses are expected to enhance distributive justice, which in turn strengthens procedural justice, leading to lower agency costs and ultimately higher employee performance. Thus, the model explains that fair reward allocation and fair procedures reduce agency problems and serve as key mechanisms through which discretionary bonuses positively affect employee performance.

RESEARCH METHODS

This study uses a quantitative method. The population in this research is all permanent employees at an SOE subsidiary engaged in port maintenance and services, with a total population of 110 people. Given the limited population, the census sampling technique is used so that all population members are made research respondents (Sugiyono, 2019). This technique is considered appropriate because every employee potentially receives discretionary bonuses and has perceptions of fairness and performance relevant to the research variables.

Discretionary bonus is the independent variable in this research, adapted from Boosey and Goerg (2020) and Chulkov (2023), namely, additional compensation given to employees based on managerial consideration and assessment of contributions that are not fully measurable quantitatively. Distributive justice is the first mediating variable referring to employees' perceptions of the fairness of outcomes or rewards received based on contributions given to the organization. Distributive justice is measured based on perceptions of the match between contribution and reward (Chen et al., 2023; Lahlou-Kassi & Eddakir, 2025). Procedural justice is the second mediating variable, namely, employees' perceptions of the fairness of processes and mechanisms for determining bonus provision. Procedural justice includes consistency, transparency, and opportunities to express opinions (Gupta et al., 2023). Agency cost is the third mediating variable reflecting agency costs that arise due to principal-agent relationships between the organization and employees (Chulkov, 2023). Agency cost is measured based on employee behaviors that increase agency costs due to misalignment of interests between employees (agents) and organization (principal). Employee performance is the dependent variable in this research, defined as work results achieved by employees in carrying out their duties and responsibilities according to organizational standards and criteria. Employee performance includes dimensions of effectiveness, efficiency, and commitment to organizational targets.

The research instrument used in this study is a closed questionnaire with a five-point Likert scale. The answer categories used consist of: score 1 = Strongly Disagree (SD), score 2 = Disagree (D), score 3 = Neutral (N), score 4 = Agree (A), and score 5 = Strongly Agree (SA). Specifically for the agency cost variable, statement items are arranged in negative form so that in the data processing stage, reverse coding is performed to maintain consistency in score interpretation direction. Thus, higher scores on the agency cost variable reflect higher levels of agency cost, in accordance with the measurement objectives in this research.

Data were analyzed using SEM-PLS with SmartPLS 4.0 to evaluate the measurement model (convergent and discriminant validity, and construct reliability) and the structural model (path coefficients and t-statistics) for testing causal relationships among latent variables, while potential Common Method Bias was examined using Harman's Single Factor Test and Full Collinearity VIF (Kock, 2015). Serial mediation was assessed through bootstrapping by comparing the significance of direct and indirect effects to determine whether the relationships exhibited full mediation, complementary or competitive partial mediation, direct-only effects, or no effects, in accordance with the criteria proposed by Hair et al. (2021).

RESULTS

This research involved all permanent employees at an SOE subsidiary engaged in port equipment maintenance services in Indonesia as respondents using the census method. The selection of respondents was based on the consideration that they have direct experience with performance-based bonus systems that include supervisor discretion components (ranging from 15-30% of basic salary), and are involved in annual performance evaluation processes.

Based on Table 1, the majority of respondents are male (65.5%), which reflects the characteristics of the port equipment maintenance services industry dominated by male technical workers. From the age aspect, most respondents are in the productive age range of 31-40 years (47.3%), indicating that respondents are in a mature career phase with adequate work experience to understand the compensation system and organizational justice dynamics. Work tenure data shows that 74.5% of respondents have worked for more than 3 years, which ensures that they have experienced at least several cycles of performance appraisal and annual bonus provision, so they are able to provide accurate assessments of discretionary bonus implementation.

The position distribution shows that staff dominate with a proportion of 61.8%, followed by supervisors (25.5%) and managers (12.7%). This distribution reflects the

typical organizational structure in technical service companies, where the number of operational staff is greater than managerial positions. This diversity of positions is important because it provides different perspectives in assessing discretionary bonus implementation: staff at operational levels have perspectives on how bonus policies are implemented on the front lines, supervisors as middle management have perspectives in bridging top management and operational staff, while managers have strategic perspectives on the design and implementation of the bonus system as a whole.

Table 1. Respondent Demographics Table

Characteristics	Category	Frequency	Percentage (%)
Gender	Men	72	65.5
	Women	38	34.5
	Total	110	100
Age	21-30 years old	35	31.8
	31-40 years old	52	47.3
	>40 years old	23	20.9
	Total	110	100
Work Period	1-3 Years	28	25.5
	4-7 Years	46	41.8
	>7 Years	36	32.7
	Total	110	100
Position	Staff	68	61.8
	Supervisor	28	25.5
	Manager	14	12.7
	Total	110	100

Table 2. Outer Model Test

Construct	Item	Outer Loading	AVE	CR
Discretionary Bonus	BD1	0.718	0.596	0.922
	BD2	0.783		
	BD3	0.757		
	BD4	0.756		
	BD5	0.820		
	BD6	0.802		
	BD7	0.755		
	BD8	0.779		
Distributive Justice (M1)	KD1	0.807	0.612	0.904
	KD3	0.758		
	KD4	0.829		
	KD5	0.780		
	KD6	0.733		
	KD7	0.784		
Procedural Justice (M2)	KP1	0.765	0.631	0.945
	KP10	0.788		
	KP2	0.803		
	KP3	0.822		
	KP4	0.726		
	KP5	0.791		
	KP6	0.843		
	KP7	0.835		
	KP8	0.793		
	KP9	0.769		
Agency Cost (M3)	AC1	0.815	0.662	0.940)
	AC2	0.791		
	AC3	0.787		
	AC4	0.856		
	AC5	0.800		
	AC6	0.832		
	AC7	0.780		
	AC8	0.845		
Employee Performance (Y)	KN1	0.771	0.594	0.911
	KN10	0.790		

Construct	Item	Outer Loading	AVE	CR
	KN4	0.789		
	KN5	0.757		
	KN6	0.772		
	KN7	0.777		
	KN8	0.738		

Based on the outer model test results presented in Table 2, the convergent validity test results provide confidence that the research instrument, consisting of 42 indicators, has good convergent validity. The next validity test stage is the discriminant validity test. According to Hair et al. (2021), discriminant validity can be measured using Average Variance Extracted (AVE) values, which must be greater than 0.50 to meet good discriminant validity criteria. Based on the results in Table 2, all five research variables show AVE values obtained ranging from 0.594 to 0.662, all of which are above the minimum threshold of 0.50. This provides strong confidence that each construct in the research model has very good discriminant validity. After variables are declared valid, the next step is to conduct reliability testing. According to Hair et al. (2021), Composite Reliability (CR) values must exceed the threshold of 0.70 for exploratory research and 0.80 for confirmatory research, with values above 0.90 indicating very good reliability. Based on the results in Table 2, all variables in this research have high Composite Reliability values, ranging from 0.904 to 0.945, indicating very good research instrument quality and strong internal consistency.

The next evaluation is the inner model conducted using several criteria, namely the coefficient of determination (R^2), and predictive relevance (Q^2). According to Hair et al. (2021), R^2 values ≥ 0.75 are categorized as substantial (strong), 0.50 as moderate, and 0.25 or less as weak. While Q^2 values greater than zero indicate that the model has good predictive relevance. Furthermore, Q^2 values of 0.02, 0.15, and 0.35 indicate weak, moderate, and strong predictive relevance values.

Table 3. Inner Model Goodness of Fit Calculation

Variable	R Square	Adjusted R Square	Q Square
Distributive Justice (M1)	0.461	0.456	0.437
Procedural Justice (M2)	0.250	0.243	0.362
Agency Cost (M3)	0.122	0.113	0.113
Employee Performance (Y)	0.608	0.600	0.548

Based on the results in Table 3, the Employee Performance variable (Y) shows that 60.8% of the variation can be explained jointly by its independent variables. An R^2 value of 0.608 falls into the moderate category. Based on results in Table 3, all endogenous variables have positive Q^2 predict values greater than zero, with values ranging from 0.113 to 0.437, indicating strong predictive relevance.

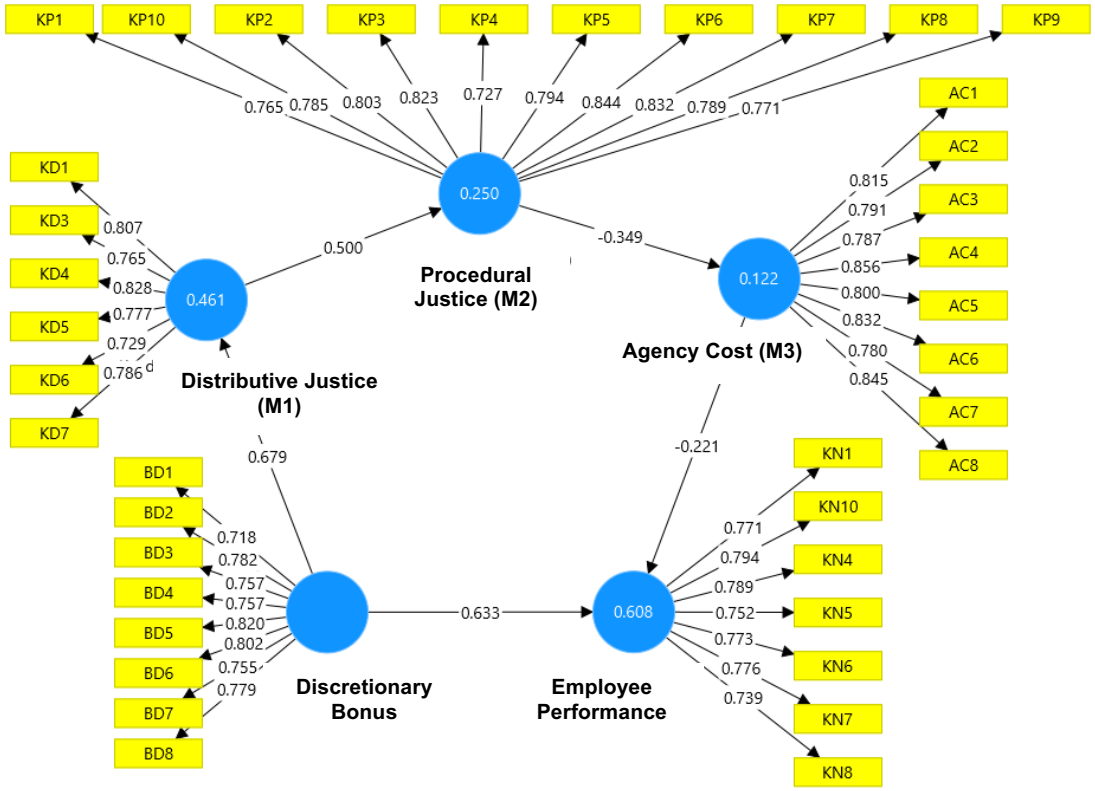

Figure 2. Conceptual Model

Figure 2 shows the conceptual model in this study. To test for the presence or absence of common method bias, this research uses Harman's Single Factor Test and Variance Inflation Factor (VIF), which is one of the most commonly used methods in social research (Podsakoff et al., 2003). Kock and Lynn (2012) with a VIF criterion of less than 5 to ensure there is no problematic multicollinearity, with a VIF value of less than 3 considered ideal indicating that the model does not have pathological common method bias and the results can be trusted.

Table 4. CMB Test

Extraction Sums of Squared Loadings	Value
Total	15.692
Percentage of Variance	40.235
Cumulative (%)	40.235

Based on results in Table 4, Harman's Single Factor Test shows that the first single factor extracted has an eigenvalue of 15.692 and explains 40.235% of total variance. This value is below the 50% threshold, indicating that there is no single factor dominating variance in the research data. These results provide initial evidence that common method bias is not a serious threat in this research.

Table 5. VIF Test

VIF	Employee Performance (Y)
Accountability (X_1)	2.061
Discretionary Bonus (X) → Employee Performance (Y)	1.466
Discretionary Bonus (X) → Distributive Justice (M1)	1.000
Distributive Justice (M1) → Procedural Justice (M2)	1.000
Procedural Justice (M2) → Agency Cost (M3)	1.000
Agency Cost (M3) → Employee Performance (Y)	1.466

According to Table 5, All VIF values on the inner model are below the threshold of 3.3, with value ranges from 1.000 to 2.061. These results confirm that there is no

significant common method bias problem in the research model. Thus, the relationships between variables found in this research can be considered to reflect actual relationships and not artifacts of the data collection method used. The inner model evaluation results show that this research model has good quality in explaining and predicting relationships between discretionary bonus, distributive justice, procedural justice, agency cost, and employee performance in the context of SOE subsidiaries.

Table 6. Research Model Bootstrapping Calculation

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Value	Remark
Discretionary Bonus → Employee Performance	0.633	0.641	0.066	9.633	0.000	Significant
Discretionary Bonus → Distributive Justice	0.679	0.686	0.044	15.401	0.000	Significant
Distributive Justice → Procedural Justice	0.500	0.513	0.077	6.494	0.000	Significant
Procedural Justice → Agency Cost	-0.349	-0.363	0.069	5.042	0.000	Significant
Agency Cost → Employee Performance	-0.221	-0.217	0.061	3.622	0.000	Significant
Discretionary Bonus → Distributive Justice → Procedural Justice → Agency Cost → Employee Performance	0.026	0.028	0.01	2.549	0.011	Significant

Result in Table 6 indicate that Discretionary Bonus (DB) has a positive and significant effect on Employee Performance (EP) ($\beta = 0.633$; $p < 0.001$). DB also exerts a positive and significant effect on Distributive Justice (DJ), which in turn positively affects Procedural Justice (PJ). Procedural Justice has a significant negative effect on Agency Cost (AC), and Agency Cost negatively and significantly influences Employee Performance. In addition to the direct effect, DB also has a significant indirect effect on EP through the serial mediation path of DJ–PJ–AC ($\beta = 0.026$; $p = 0.011$), indicating the presence of a significant serial mediation effect.

DISCUSSION

Discretionary bonuses have a positive and significant effect on employee performance. This finding is consistent with Cholifah and Lestari (2023) and Singh and Mahato (2025), who report that incentives and bonuses significantly improve employee performance. Bonuses function as an effective motivational tool, as employees are encouraged to achieve or even exceed performance targets in order to obtain higher rewards, thereby enhancing their effort and productivity (Basuki et al., 2022; Haron & Khadijah, 2023). The discretionary bonus has a positive and significant effect on distributive justice. These findings provide empirical evidence that when employees receive discretionary bonuses reflecting their actual contributions holistically, they will perceive that the rewards received are proportional to the efforts and contributions given to the organization.

These findings are consistent with equity theory by Adams (1965), which posits that fairness is assessed by comparing the balance between contributions and rewards. In this study, discretionary bonuses of 15–30% of basic salary allow recognition of qualitative contributions such as discipline, initiative, teamwork, and loyalty, thereby strengthening perceptions of distributive justice when rewards are seen as proportional. This supports Boosey and Goerg (2020), who found discretionary bonuses to be more effective than formula-based schemes in enhancing fairness perceptions, and aligns with Chen et al. (2023) who emphasize that compensation systems capturing both quantitative and qualitative performance foster stronger perceptions of outcome fairness. These findings provide empirical validation of Ministry of SOEs Regulation Number PER-

12/MBU/2020, which provides authority to subsidiary management to determine bonus components based on non-financial indicators. This regulation is conceptually aligned with discretionary bonus principles that allow flexibility in appreciating employee contributions comprehensively.

The results indicate that distributive justice has a positive and significant effect on procedural justice, meaning that employees' perceptions of fair reward allocation strongly shape their evaluations of the fairness of the procedures used to determine those rewards. This reasoning is consistent with equity theory, which suggests that individuals assess fairness not only by comparing inputs and outcomes but also by inferring the fairness of the processes that generate those outcomes (Adams, 1965). Empirical evidence supports this linkage, as Chen et al. (2023) found that satisfaction with compensation outcomes leads to more favorable evaluations of compensation procedures. Similarly, Aryee et al. (2004) demonstrated that when supervisors are perceived to allocate rewards fairly, employees develop trust in them, which subsequently translates into perceptions that decision-making procedures are also fair.

Procedural justice has a negative and significant effect on agency cost. This significant negative coefficient indicates that the higher employee perceptions of procedural justice in discretionary bonus provision systems, the lower the level of agency costs arising in the organization. Leventhal (1980) argues that fair, consistent, transparent, and ethical procedures foster perceptions of dignity and fairness, which shape employee attitudes and reduce opportunistic behavior that increases agency costs. Supporting this, Chulkov (2023) shows that trust in transparent and consistent compensation processes lowers self-serving actions, shirking, and misuse of resources. The results indicate that agency cost has a significant negative effect on employee performance, meaning that higher opportunistic behavior leads to lower performance due to misaligned interests between employees and the organization (Eisenhardt, 1989). This finding is consistent with Kalash (2019), Tuan et al. (2019), and Houqe et al. (2022) who showed that higher agency costs reduce operational efficiency and firm performance, and with Boosey and Goerg (2020), who found that monetary incentives fail to improve performance when they do not reduce agency problems.

The results show that distributive justice, procedural justice, and agency cost act as serial mediators in the relationship between discretionary bonuses and employee performance, indicating that the effect of bonuses is transmitted through sequential psychological and behavioral mechanisms rather than occurring directly. From the perspective of agency theory, discretionary bonuses function as contractual tools to align employee and organizational interests, yet their effectiveness depends on employees' perceptions and behavioral responses, not solely on their economic value (Eisenhardt, 1989; Jensen & Meckling, 2019). Organizational justice theory further explains that perceptions of fairness shape employee behavior through social exchange processes, whereby fair treatment encourages reciprocal positive attitudes and performance, while perceived injustice leads to opportunistic behavior that increases agency costs (Blau, 1964; Colquitt et al., 2001). Consistent with Chen et al. (2023), this study finds that discretionary bonuses first strengthen perceptions of distributive justice, which then enhance procedural justice, subsequently reduce agency costs, and ultimately improve employee performance, confirming a sequential mediation process in which fairness perceptions guide behavior and determine performance outcomes.

CONCLUSION

The serial mediation findings provide empirical validation of the Ministry of SOEs Regulation Number PER-12/MBU/2020, which provides flexibility to subsidiary management to determine bonus components based on non-financial indicators. This regulation is conceptually aligned with discretionary bonus principles that allow appreciation of contributions that cannot be fully quantified. However, research results show that to maximize the effectiveness of this regulation, implementation must consider serial mechanisms involving perceptions of fairness and agency costs. The flexibility

provided by the regulation must be balanced with transparent, consistent, and objective procedures to ensure that distributive and procedural justice perceptions are strongly formed.

The serial mediation findings in this research provide an important theoretical contribution to the literature by integrating agency theory and organizational justice theory in one comprehensive framework explaining the complex mechanism through which discretionary bonuses affect employee performance. These findings provide crucial practical implications for SOE subsidiary management to adopt a holistic approach in designing and implementing discretionary bonus systems. By considering all stages in the serial mediation mechanism, organizations can maximize the effectiveness of compensation system investments and achieve the dual mandate goals of SOEs, namely profitability and optimal public interest service.

This study is limited by its focus on a single SOE subsidiary with a relatively small census sample and a cross-sectional, self-reported design, which may restrict generalizability and causal inference despite controls for Common Method Bias. Agency cost was also measured perceptually rather than through objective financial indicators. Future research is therefore encouraged to use longitudinal and multi-organization samples, incorporate objective performance and agency cost measures, and examine additional variables such as trust, leadership, or organizational culture to further explain how discretionary bonuses influence fairness perceptions, agency behavior, and employee performance.

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