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Impact of Fairness of Performance Appraisal on Motivation and Job Satisfaction in Banking Sector of Pakistan

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ABSTRACT

Performance appraisal is a formal program in which employees are told the employer's expectations for their performance and rated on how well they have met those expectations. A fair appraisal system is essential in any organisation to retain valuable employees. It enables employees to understand their job responsibilities and shows them the path towards individual growth. This paper seeks to investigate the role played by fairness of performance appraisal in the process of motivating employees and increasing their satisfaction with job in banking sector of Pakistan. The study explored impact of fairness of performance appraisal on employee motivation and job satisfaction and endeavours to influence banking sector of Pakistan for a consideration of fair systematic and structured appraisal approaches to acknowledge employees' efforts which would in turn increase their motivation and satisfaction with job. A questionnaire was used as an instrument for data collection. A sample of 450 employees from 21 banks was selected out of which 439 responded. Dependent variables were motivation and job satisfaction and independent variable was fairness of performance appraisal. Regression and Correlation analysis were performed to test the relationships on the data using SPSS. In general the findings revealed that there is a statistical significant relationship between the variables and fairness of performance appraisal has a positive influence on employee motivation and job satisfaction. The results of the study and future implications are discussed along with suggestions.

KEYWORDS: Fairness of performance appraisal, Distributive justice, Procedural justice, Motivation, Job satisfaction.

1. INTRODUCTION

Effective organizations are built not only on investment and returns but also on the quality of the workforce, its commitment to the organizational goals and investments made to attract, train and retain superior human capital. Every employee represents an irreplaceable resource if managed effectively. To manage your employees effectively and efficiently you need a system that is customizable, reliable, and repeatable.

Everyone wants to know how well they are doing, what they can do better, how they are perceived by management, etc. These things contribute to their well-being, motivation, job satisfaction, their security and peace of mind. Human beings want to be told these things. Written congratulatory notes and praise on the bulletin boards are very nice and are encouraged but will not contribute to the sustained motivation and job satisfaction of the individuals. What is needed to motivate and sustain the motivation is on-going performance appraisals to help the employees get better and to reiterate expectations.

A performance appraisal is a process in which a rater or raters evaluate the performance of an employee. More specifically, during a performance appraisal period, rater (s) observes, interact with, and evaluate a person's performance. Simplest definition of performance is the ratio of output data to input; hence performance evaluation system in fact judges the extent of efficiency of management decisions regarding best possible use of resources and facilities [1].A fair performance appraisal system should focus on the individual and his development, besides helping him to achieve the desired performance. Dubinsky, Skinner, and Whittler [8]contended that appraisals can be used to determine rewards, provide managerial feedback, help to evaluate training and development needs, help to monitor the effectiveness of human resource.

Banks are back bone for the economic development of any country. A planned banking system is indispensable for economic growth and development of any country. For this system to work effectively fair performance ratings of the employees are required. The more the employees consider performance appraisal fair, the more they will be motivated and satisfied to their job.

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This study tends to empirically investigate the impact of fair appraisals on employee's motivation and job satisfaction.

Performance appraisals are based on the belief that distributing rewards and sanctions based on rated performance (distributive justice) can enhance employee motivation and improve organizational performance [14].

2. LITERATURE REVIEW

Performance appraisal is often considered as strategic approach to integrate HR activities and business policies and is considered in generic term as covering a variety of activities such as organizational assessment of employees and developing their competence, enhancing performance and distributing rewards [9].Performance assessment is often well thought-out as one of the most important Human Resource (HR) practices [29,4] and one of the more heavily researched topics in work psychology [10]. Not surprisingly, the systematic evaluation of fairness perception in the management accounting context was first undertaken by Hopwood [11] in his study of performance evaluation methods. Research shows that perceived fairness of the evaluation has a greater impact on satisfaction than does the rating received [16,17,25].

Greenberg [11] was one of the first to apply organizational justice theory to performance evaluation. He posed the basic research question as to what makes a performance appraisal appear to be fair? Further he found whether it is what one receives or how the decision is made, or both, that make performance appraisal system as fair. In research, organizational justice may be defined as the study of fairness at work [5].Organizational justice researchers have contend that fairness can be divided into two primary types with a third, less clearly defined type often proposed. The first commonly accepted type of justice is referred to as "distributive" justice. Distributive justice refers to the fairness of the evaluation or appraisal received "Procedural" justice, the second type, is generally defined as fairness of the process used in conducting the performance evaluation [12].Cohen-Charash and Spector [6] found that both distributive and procedural justices were related to job performance, job satisfaction and the intention to quit.

In order to achieve excellence in organizational operations, job satisfaction is considered an important requirement. It includes attitudes and feelings of people about their work performed. It can also be said that job satisfaction means meaningful attitudes towards one's job [24].Job satisfaction is a state of pleasure that could be gained by implementing one's values to a job [18]. Job satisfaction "can be considered as a global feeling about the job or as a related constellation of attitudes about various aspects or facets of the job." [27]. Cohen-Charash and Spector [6] found that both distributive and procedural justices were related to job performance, job satisfaction and the intention to quit. A study by McFarlin and Sweeney [20] found that distributive fairness influences job satisfaction. Arnold and Feldman[2]described job satisfaction as "the amount of overall affect that individuals have toward their job". High job satisfaction therefore means that an individual likes his or her work in general, appreciates it and feels positive about it.Performance evaluations made on the basis of political considerations reduce employees' confidence on the process. When employees feel being treated as unfair, they are likely to react by initially changing their job attitudes, followed in the longer termresponses that are more retaliatory such as quitting [31].

It is function of management to create and maintain such an environment in which people keep on trying to achieve their common goals together as groups. A successful manager must know what pushes people to effort seriously [3]. Luthan[19] defines motivation as, "a process that starts with a physiological deficiency or need that activates behavior or a drive that is aimed at a goal incentive". Motivation is the result of psychological processes that lead to goal oriented and effective efforts of the individuals [21].Performance appraisals are based on the belief that distributing rewards and sanctions based on rated performance (distributive justice) can enhance employee motivation and improve organizational performance [22,14].It may be suggested that when employees are evaluated on performance relative to results over which they have control, they will be more motivated to try to improve their performance [25,26] and they will also perceive the appraisals as more fair. Inaccurate performance appraisals have negative impacts on employees' work motivation, job satisfaction, efforts and perception of justice [28].

3. METHODOLOGY

The study is a descriptive field study conducted through personally administrative questionnaire in no contrived environment. The type of investigation is correlation.21 banks were selected as sample. Only listed banks, from Lahore Stock Exchange were taken as sample. Based upon the belief that diversity in the sample will add more value than concentrating on one level, data were collected from employee participants working at all levels of banks

i.e. top level, middle level, lower level. The distribution of population in these banks was as follows: Local banks (300) and foreign banks (133).

In this research attempt probability sampling specifically "simple random sampling" (a form of probability sampling) technique has been used. The questionnaire was specifically designed to accomplish the objectives of the study. The instrument used in this study had a total of 45 items. The alpha value of the reliability of the instrument is .85 which is satisfactory and statistically acceptable for data collection. A pool of 25 banks was listed, and among the 25, four either declined or did not return the questionnaires. A total of 450 individual questionnaires were distributed to individual employees, and 439 questionnaires were collected, representing overall 97.55 percent response rate which is good representative for sample. Excluding 6 insufficient Individual responses, 433 individual questionnaires were used for the analysis by using SPSS version 16 mathematical tools, mainly focusing on impact of fairness of appraisal practices on job satisfaction and motivation. The Pearson's correlation coefficient and regression was applied to find out the relationship of fairness of performance appraisal with job satisfaction and motivation. The significance of relationships was measured at confidence levels of 95% and 99%.The following research model is being tested in the following study.

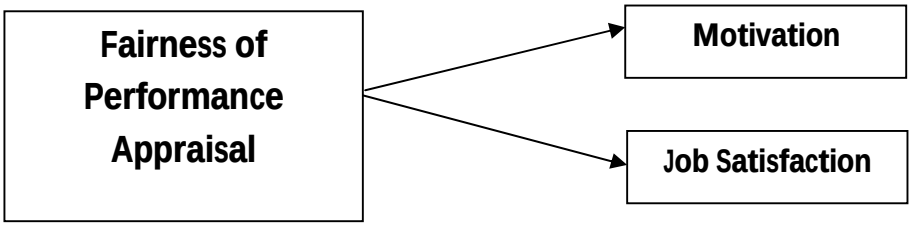

Fig-1 Research Variables

H1 = Fairness of performance appraisal has a positive association with job satisfaction.
H2= Fairness of performance appraisal has a positive association with Motivation.

4. RESULTS

Relationships between fairness of performance appraisal and its resultant impact on employee's motivation and job satisfaction are found by applying regression on data by using SPSS software.

Table: 1 Job satisfaction and Fairness of Performance Appraisal

	R	R^2	Beta	F	*P*
Fairness Of Performance Appraisal	.404	.636	.650	292.514	.000

Table 1 shows R (co-relation coefficient) value is 0.404 while the regression coefficient R^2 is .636 which means that 63.6% variation in the DV is due to IV and rest of the variation in job satisfaction can be attributed to other factors. Beta is 0.650 or 65.0% means that if there is one unit increase in IV then DV will increase by 0.650 units and vice versa. The results indicated that there is highly significant relationship (r= 0.650, P<0.01) between fairness of performance appraisal and job satisfaction and consequently hypothesis 1 is supported. Table 2 shows the results of regression analysis for variables fairness of performance appraisal and motivation. R (co-relation coefficient) value is 0.259 while the regression coefficient R^2 is .509 which means that 50.9% variation in the DV is due to IV and rest of the variation in job satisfaction can be attributed to other factors. Beta is 0.491 or 49.1%. The results indicated that there is significant relationship (r= 0.491, P<0.01) between fairness of performance appraisal and motivation and consequently hypothesis 2 is supported.

Table: 2Motivation and Fairness of Performance Appraisal

	R	R^2	Beta	F	*P*
Fairness Of Performance Appraisal	.259	.509	.491	121.49	.000

Relationships between fairness of performance appraisal and the resultant impact of its on employee's motivation and job satisfaction are found by applying Pearson's correlation coefficient on data by using SPSS software. The significance of relationship is measured at confidence levels 99%. The results indicated that fairness of performance appraisal has a significant positive relationship with job satisfaction (r= .636, p>0.05) and motivation (r= .509, p>0.05). As the relationship of fairness of performance appraisal with job satisfaction and motivation is found significantly positive.

Table: 3 Correlation of Fairness of performance appraisal with job satisfaction

Variable	Job satisfaction		Motivation
Fairness of performance appraisal	**Person correlation**	.636	.509
	Significance (2-tailed)	0.000	0.000

** Correlation is significant at the 0.01 level (2-tailed)

So all the research hypotheses are accepted as positive association was found between fairness of performance appraisal, motivation and job satisfaction.

5. Discussions/Conclusions/Future recommendations

Perceptions of fairness may be critical to the success of the appraisal process in terms of building individual job satisfaction and motivation. Thus, to build satisfaction and motivation, managers may be well-advised to make certain that the participants feel the process is conducted fairly. The research study has been conducted to find out mainly the impact of fairness of performance appraisal on job satisfaction and motivation in employees of banking sector in Pakistan. The results of the study found significant positive correlation found between fairness of performance appraisal and job satisfaction. This was expected because fairness of performance appraisal has been found by researchers to affect individual job satisfaction [6,20,7,15,30].According to hypothesis 2, fairness of performance appraisal will have a significant positive correlation with motivation, and that fairness of performance appraisal will be a significant predictor of motivation. This hypothesis was also supported. Correlation analysis results showed that fairness of performance appraisal had a significant positive correlation with motivation at the p< .01 significance level. The direct relationship between fairness of performance appraisal (independent variable), motivation and job satisfaction (dependent variables), using linear regression analysis, was significant.

Fairness of performance appraisal and job satisfaction are among the most researched areas in organizational research. However, not much work is done to find out the relationship of fairness of performance appraisal with motivation. Further research is needed on how these two important work-related factors are interrelated. As the relationship, such as the one between fairness of performance appraisal and motivation has not been researched sufficiently. In this context, the study's findings are significant. The findings also suggest that firms interested in enhancing their employees levels of job satisfaction and motivation have at their disposal the means by which they can accomplish these goals with a minimal investment.

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