

Effect of Performance Appraisal on Organizational Performance

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Abstract: *The performance of employees is pivotal in organizational performance. Performance appraisal is an important human resource function in the measurement of employee performance. The purpose of this study was to find out the impact of performance appraisal on organizational performance and to find out the moderating effect of organizational commitment on the relationship between performance appraisal and organizational performance. This study was carried out in three companies listed in the stock exchange. These are: Kenya Power, KenGen and Mumias Sugar Company. The study adopted descriptive survey design. The study population comprised 5866 employees in the three companies. It was found that performance appraisal had a significant effect on organizational performance. The study further showed that affective commitment, continuance commitment and normative commitment moderated the relationship between performance appraisal and organizational performance.*

Keywords: organizational commitment, organizational performance and performance appraisal

1. Introduction

The performance of employees is of great concern in every organization. Organization's endeavor to maximize the performance of their employees. As such, there is need to come up with a method of evaluating employees' performance. Performance appraisal is a key human resource function concerned with evaluation of employees' performance. Performance appraisal is the formal assessment and rating of individuals by their managers at or during a review meeting (Armstrong, 2009). According to Kuvaas (2006) performance appraisal or employee appraisal is a method by which the job performance of an employee is evaluated generally in terms of quality, quantity, cost and time typically by the immediate line manager or supervisor.

2. Objectives

The objectives of the study were: to examine the impact of performance appraisal of employees on organizational performance in listed state corporations in the Nairobi stock exchange and to find out the moderating effect of organizational commitment on the relationship between performance appraisal and organizational performance

3. Literature Review

Performance Appraisal

In the organizational setting, performance appraisal is defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed (Moorhead & Griffin, 2002). In performance appraisal, the focus is to identify weaknesses and strengths as well as opportunities for improvement and skills development (Aguinis, 2007). A performance appraisal involves measuring job performance which mainly captures an essential element of the performance appraisal process without specifying the actual techniques used for measurement (Kavanagh, Benson & Brown, 2007). According to Shen (2004), performance appraisal is the

process of identifying, observing, measuring, and developing human resources in organizations. In order for the appraisal system to be effective, the system needs to be accepted and supported by its employees. At the same time, performance appraisal is a process of judgment and evaluating of the subordinate's performance by the supervisor as well.

Performance appraisal is an integral part of the Human Resource Management system. An organization implements the performance appraisal system to allocate rewards for the employee, provide development advice as well as to obtain their perspectives, and justice perception about their jobs, department, managers, and organization (Longenecker & Goff, 2003).

Performance appraisal is an ongoing communication process between employees and supervisors. Supervisors set expectations, monitor performance and provide feedback to employees. They direct and develop employee performance by identifying training and development needs, correcting and determining raises and promotions (Seldon, Ingraham & Jacobson, 2001).

Relational perspective on employee performance appraisal and organizational performance

Performance appraisal provides employees with useful feedback which they can apply to improve their performance (Ahmed, 2011). The feedback includes suggestions to change and encouragement. Performance appraisal system has a significant impact on the employee perception of justice which affects the attitudes and behavior of the employee thus will influence the performance of the organization (Ahmed, Ramzan, Mohammad & Islam, 2011). Akinbowale, Lourens and Jinabhai (2013) surmise that the adequate performance of employee's based on performance appraisal policy will result in improvement in employee performance. Feedback, particularly on interpersonal (supervisor-subordinate) basis will be found to be useful and highly effective in motivating employees to improve their performance.

Kane and Lawler (2009) opined that the three main functional areas of performance appraisal systems are administrative, informative and motivational. Appraisals affect administration in that it serves the role of facilitating an orderly means of determining salary increases and other rewards, and of delegating authority and responsibility to the most capable individuals. The informative function is fulfilled when the appraisal system supplies data to managers and appraises about individual strengths and weaknesses. The motivational role involves creating a learning experience that motivates workers to improve their performance. Performance appraisals help employees and managers establish goals for the period before the next appraisal.

Bates (2003) opines that through performance appraisal, regular feedback is given regarding the employee's past and present performance to ensure an improvement in employee performance. Rudman (2003) indicated that performance appraisal has a positive and negative impact. Employees who receive a good score on his/her appraisal are generally motivated to perform well and maintain his/her performance. Positive feedback on appraisals gives employee a feeling of worth and value, especially when accompanied by salary increases. Negative feedback in the form of a poor score leads to a loss of motivation in the workplace which can affect an employee's performance (Cook & Crossman, 2004).

The employee's perception of fairness is the ultimate check for the success of the appraisal system. According to the organizational justice theory, the efficacy of the appraisal system depends upon the perception of fairness related to it. The acceptance of the evaluation system depends on the perceived fairness associated to it. Employees must perceive that they are being evaluated against what they are actually supposed to do on the job. As such, the evaluation instrument should measure their performance against their job-related activities. Ahmed *et al* (2011) revealed that employee perception of fairness of performance appraisal is a significant factor in employee acceptance and satisfaction of performance appraisal. A good perception creates a positive working environment in the organization, while a negative perception creates problems and eventually affects organizational performance. Bretz, Milkovich and Read (1992) observed that the most important performance appraisal issue faced by organizations is the perceived fairness of the performance review and the performance appraisal system. Skarlicki and Folger (2004) found that the appraisal process can become a source of extreme dissatisfaction when employees believe the system is biased, political, or irrelevant.

A good performance system leads to job satisfaction, and generates an increased work performance (Suliman, 2007). North (2008) argued that an effective performance appraisal can lead to higher job satisfaction and reduced absenteeism and turnover rates. Mohrman, Resnick-West and Lawler (1989) highlighted the benefits of a documented properly implemented performance appraisal policy to include: increased motivation, gaining new insight into staff and supervisors, distribution of rewards on a fair and credible basis, increased self-understanding among staff and insight

into the kind of development activities that are of value. Richards (2010) found that performance appraisal can provide an indication of areas of training need as well as direction for leadership development, performance improvement and succession planning.

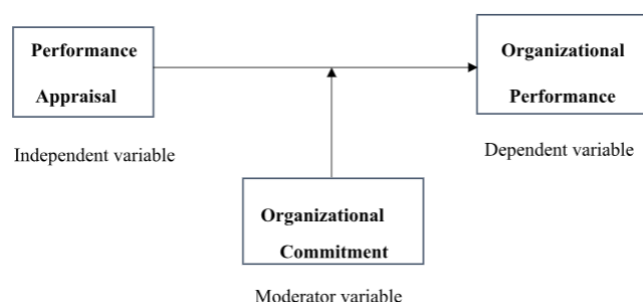
The results of a Pakistanian study demonstrate a critical association between performance appraisal/ evaluation and performance of employees (Khan, Khan & Khan, 2017). Results show there is positive relationship between performance appraisal and employee's performance (Iqbal, Ahmad, Haider, Batool & Qurat-ul-ain, 2013). Arising out of the performance appraisal reviews, it was revealed that the training which employees received led to an improvement in job performance.

In a Nigerian study, performance appraisal reviews showed that when feedback reports were effectively used, they led to improved employee performance (Akinbowale, 2013). In an Ethiopian study, it was concluded that high quality performance appraisal is likely to generate higher level of employee performance while a low quality performance appraisal may result in a lower level of employee performance (Bekele, 2016). In Kenya, findings showed that there is a significant relationship between performance appraisal and worker's performance (Wanjala & Kimutai, 2015; Mwema & Gachunga, 2014).

Based on the literature reviewed, the following hypotheses were formulated:

- H0₁: There is no significant influence of performance appraisal on organizational performance in listed state corporations in the Nairobi stock exchange.
H0₂: There is no moderating effect of organizational commitment on the relationship between performance appraisal and organizational performance
H0_{2a}: There is no moderating effect of affective commitment on the relationship between performance appraisal and organizational performance
H0_{2b}: There is no moderating effect of continuance commitment on the relationship between performance appraisal and organizational performance
H0_{2c}: There is no moderating effect of normative commitment on the relationship between performance appraisal and organizational performance

4. Conceptual Framework



5. Methodology

The study adopted descriptive survey research design. A sample was 361 respondents was drawn from a study population of 5866 employees of three state corporations namely: Kengen, Kenya Power and Mumias Sugar Company. Simple random and stratified sampling techniques were used.

6. Data Analysis and Presentation

Data was presented in form of tables, figures, bar graphs and charts. Data analysis was done using descriptive and inferential statistics. This was done through calculating frequency distributions, means, modes, percentages and standard deviations. To test the hypotheses, F-test was used. Multiple regression was applied in order to analyze the effect of employee appraisal on organizational performance as moderated by organizational commitment. The following model was adopted:

$$Y = \beta_0 + \beta_1 X_1 + \beta_{12} X_1 Z + \varepsilon$$

where:

Y = Organizational performance

X₁ = Employee appraisal

Z = Organizational commitment

β₀ is a constant which denotes organizational performance that is independent of employee appraisal and organizational commitment.

ε is a random variable introduced to accommodate the effect of other factors that affect organizational performance within or outside that are not included in the model.

The model was first subjected to correlation to establish whether the variable was significant. F-test was further computed to determine the level of significance in the model. Null hypothesis was accepted or rejected based on the p-value obtained. The test was done at α = 0.05 level of significance.

7. Results and Discussion

Influence of Performance appraisal on organizational performance

Findings showed that performance appraisal influenced organizational performance (r = 0.458, p-value < 0.001). This implied that performance appraisal independently explains 21.0% of the variation in Y. Using the study model:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon.$$

Where

Y – Organizational performance

X₁ – Performance Appraisal index

ε = Error term

The equation for establishment of organizational performance in the regression formula therefore is: $Y = 0.458X_1$. The model equation shows that standardized Organizational performance will increase by 0.458 units with one unit increase in standardized performance appraisal.

The hypothesis to be tested was **H₀₁**: There is no significant influence of performance appraisal on organizational

performance. Using stepwise regression analysis, performance appraisal as a variable of this study was entered with the measures of organizational performance into the regression model.

Regression equation obtained using standard beta (β) coefficient on the line of best fit and fitted in the regression model for testing hypothesis was:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$Y = 0.458X_1$$

Where

Y = Organizational performance

X₁ = performance appraisal.

ε = Error term

The F –test for this factor in the regression model was found to be significant $F_{(1, 285)} = 75.351$, p-value = 0.001.

Table 1: ANOVA table of performance appraisal on organizational performance

		Sum of Squares	df	Mean Square	F	Sig.
	Regression	31.996	1	31.996	75.351	.000 ^a
	Residual	120.596	284	0.425		
	Total	152.592	285			

Hypothesis H₀₁ was therefore rejected and concluded that performance appraisal significantly influences organizational performance.

These findings are similar to those of Ahmed et al. (2011) who asserted that performance appraisal provides employees with useful feedback which they can apply to improve their performance. The feedback includes suggestions to change and encouragement. Performance appraisal system has a significant impact on the employee perception of justice which will affect the attitudes and behavior of the employee; alternately, it will influence the performance of the organization (Ahmed, Ramzan, Mohammad & Islam, 2011). Performance appraisal is important for organizational performance as reported by Zeleska and Menezes (2007), who assert that employees show high level of commitment, for their organizations when the organization provides them opportunities to grow.

Table 2: Interaction Effects between Performance Appraisal and affective Commitment Regressed on Organizational Performance

Independent variable	Organization Performance		
	Beta	SE	B
Step 1-Independent Variable Performance Appraisal	.434***	.062	.459
	R ² = .188*** ΔR ² = .188 F Change = 54.344 df = 1, 234		
Step 2- Moderating Variable Affective commitment	.306***	.062	.321
	R ² = .271*** ΔR ² = .083 F Change = 26.501 df = 1, 233		
Step 3- Interactions Performance Appraisal* affective Commitment	.820**	.294	.632
	R ² = .286*** ΔR ² = .014 F Change = 4.619 df = 3, 232		

The results in Table 2 show the percent of variability in the dependent variable (organizational performance) that could be accounted for by the independent variable (interpretation of R-square). The findings reveal that in the first model, performance appraisal interaction was significant (F (1, 234)

= 54.344, $p < 0.001$) with R^2 value of 0.188 which is 18.8 per cent of variation in the dependent variable.

The moderating variable (affective commitment) was added to the model in the step 2. The change in R^2 evaluated how much predictive power was added to the model by the addition of moderator variable (Affective commitment) in second step. The percentage of variability accounted for went up from 18.8 per cent to 27.1 per cent when affective commitment was added. In the second model, affective commitment was significant ($F(2, 233) = 26.501$, $p < 0.001$). There was change in R^2 when the interaction term was obtained by multiplying the moderating variable (affective commitment) with independent variable (performance appraisal) in the step three. The percentage of variability accounted for went up from 27.1 per cent to 28.6 per cent. The third model with interaction obtained by multiplying the moderating variable (affective commitment) with independent variable (performance appraisal) was significant ($F(3, 232) = 4.619$, $P < 0.001$). The results therefore show that affective commitment is a moderator of the relationship between performance appraisal and organizational performance. Therefore, hypothesis H_{02a} : Affective commitment does not moderate the relationship between performance appraisal and organizational performance was not supported. Therefore it was concluded that affective commitment moderates the relationship between performance appraisal and organizational performance.

Table 3: Interaction between Performance Appraisal and Continuance Commitment Regressed on Organizational Performance

Independent variable	Organization Performance		
	Beta	SE	B
Step 1-Independent Variable Performance Appraisal	.439***	.062	.468
	$R^2 = .192^{***}$ $\Delta R^2 = .192$ F Change = 56.181 df=1,236		
Step 2- Moderating Variable Continuous commitment	.215***	.075	.276
	$R^2 = .237^{***}$ $\Delta R^2 = .044$ F Change = 13.658 df=1,235		
Step 3 Interactions Performance Appraisal * Continuous Commitment	.378**	.289	.295
	$R^2 = .240^{***}$ $\Delta R^2 = .003$ F Change = 1.039 df=1, 234		

The results in Table 3 show the percent of variability in the dependent variable (organizational performance) that could be accounted for by the independent variable. The findings reveal that in the model, performance appraisal interaction was significant ($F(1, 236) = 56.181$, $p < 0.001$) with R^2 value of 0.192 which is 19.2 per cent of variation in the dependent variable.

The moderating variable (continuance commitment) was added to the model in the step 2. The percentage of variability accounted for went up from 19.2 per cent to 23.7 per cent showing continuance commitment was significant ($F(2, 235) = 13.658$, $p < 0.001$).

There was change in R^2 when the interaction term was obtained by multiplying the moderating variable (continuance commitment) with independent variable (performance appraisal) in step three. The percentage of variability accounted for went up from 23.7 per cent to 24.0

per cent. The third model with interaction obtained by multiplying the moderating variable (continuance commitment) with independent variable (performance appraisal) was significant ($F(3, 234) = 1.039$, $P < 0.001$). The results therefore show that continuance commitment is a moderator on the relationship between performance appraisal and organizational performance. Therefore, hypothesis H_{02b} : continuance commitment does not moderate the relationship between performance appraisal and organizational performance was not supported. Therefore it was concluded that continuance commitment moderates the relationship between performance appraisal and organizational performance.

Table 4: Interaction between Performance Appraisal and Normative Commitment Regressed on Organizational Performance

Independent variable	Organization Performance		
	Beta	SE	B
Step 1-Independent Variable Performance Appraisal	.447***	.062	.479
	$R^2 = .199^{***}$ $\Delta R^2 = .199$ F Change = 59.310 df=1,238		
Step 2- Moderating Variable Normative commitment	-.019***	.026	-.008
	$R^2 = .200^{***}$ $\Delta R^2 = .000$ F Change = .103 df=2, 237		
Step 3 Interactions Performance Appraisal * Normative Commitment	-.955**	.290	-.719
	$R^2 = .220^{***}$ $\Delta R^2 = .020$ F Change = 6.143 df=3, 236		

The results in Table 4 show the percent of variability in the dependent variable (organizational performance) that could be accounted for by the independent variable. The findings reveal that in the first model, performance appraisal interaction was significant ($F(1, 238) = 59.310$, $p < 0.001$) with R^2 value of 0.199 which is 19.9 per cent of variation in the dependent variable.

The moderating variable (normative commitment) was added to the model in the step 2. The change in R^2 evaluated how much predictive power was added to the model by the addition of moderator variable (normative commitment) in the second step. The percentage of variability accounted for went up from 19.9 per cent to 20.0 per cent when normative commitment was added. In the second model (normative commitment) was significant ($F(2, 237) = 0.103$, $p < 0.001$).

There was change in R^2 when the interaction term was obtained by multiplying the moderating variable (normative commitment) with independent variable (performance appraisal) in step three. The percentage of variability accounted for went up from 20.0 per cent to 22.0 per cent. The third model with interaction obtained by multiplying the moderating variable (normative commitment) with independent variable (performance appraisal) was significant ($F(3, 236) = 6.143$, $P < 0.001$). The results therefore show that normative commitment is a moderator on the relationship between performance appraisal and organizational performance. Therefore, hypothesis H_{02c} : normative commitment does not moderate the relationship between performance appraisal and organizational performance was not supported. Therefore it was concluded that normative commitment moderates the relationship

between performance appraisal and organizational performance.

8. Conclusions

Research findings show that performance appraisal significantly influences organizational performance. In addition it was found that affective commitment, continuance commitment and normative commitment moderated the relationship between performance appraisal and organizational performance.

9. Recommendations

Organizations should have in place a performance appraisal process which should be fair and open. There is need to give positive feedback after the appraisal process as this motivates and helps employees' to improve.

There should be continuous feedback which should be the basis of employee training and improvement.

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