

M.A.M. Hussain Ali <sup>(1)</sup>, I. Raisal <sup>(2)</sup> and N. Mohammed Fasmay <sup>(3)</sup>

## Impact of Effective Performance Appraisal System (PAS) on Employees' Commitment in the selected branches of State Banks of Sri Lanka

(1) Department of Management, South Eastern University of Sri Lanka, University Park, Oluvil, Sri Lanka. (email:hussainali31@yahoo.com)

(2) Department of Management, South Eastern University of Sri Lanka, University Park, Oluvil, Sri Lanka. (email: ismarais@seu.ac.lk)

(3) Global Graphics LLC, U.A.E

**Abstract:** The objective of this study was to investigate the relationship between Performance Appraisal System and Employees Commitment in selected branches of state banks in the Trincomallee district of Sri Lanka. Primary data was collected using a structured questionnaire from 85 respondents from both People's bank and Bank of Ceylon through simple random sampling method. The key constructs for this study were Performance Appraisal System as an independent variable and Employees' Commitment as a dependent variable. A Hypothesis also formulated to test the relationship between the constructs. Data were analyzed using SPSS (version 16.0) and the interpretation made on using several statistical techniques. The findings of the study revealed that, most of the employees agreed upon, that their commitment level is moderate and also there is a significant positive relationship between Performance Appraisal System and Employees Commitment. Although employees performance appraisal system in high level, should adopt a more methodical system of performance Appraisal in the dimensions of policies of PAS, criteria and standards, forms and procedures, decision making and storing, review and renewal in order to improve employees commitment to very high level.

Key words: Performance Appraisal System (PAS), Employee Commitment, State Banks, Criteria & standards, Feedback Interview

### Introduction

Organizational effectiveness depends on the Productivity and profitability depends on the efficiency of the employees (Raman, 1998). Employees are an important resource to achieve organizational goals. Whether or not an organization is successful largely depends on how effectively employees perform their jobs (Heneman III and Schwab, as in Opatha, 1992). The productivity of the employees depends heavily on the human resource management. Improving human resource management will help to increase the efficiency of the employees, and ultimately this will enhance the organizational effectiveness (Raman, 1998). Hence, an organization should adopt a series of functions in order to accomplish the goals and the objectives of human resource management. Performance Appraisal System (PAS) is one of the main functional areas of human resource management. Performance appraisal is called by many names, such as performance evaluation, merit rating, employee assessment, employee evaluation and performance rating (Opatha, 2002). The

term used in this study is Performance Appraisal System (PAS).

Commitment is an essential part of an individual's involvement in enabling the organization to reach its goals and is a key aspect of the quality of the workforce. Some authors have defined organization commitment as the extent to which to an individual identifies with his or her organization and /or is unwilling to leave it (Perera, 2002). Employee commitment also means the relative strength of an individual's identification with and involvement in a particular organization (Mowdy, Porter & Steers, 1982, 27 as in Perera, 2002).

People's bank and BOC have been coming up in providing their services to their customer island wide, as the customer is the important factor to these banking sectors to provide these services. Employees have played a major role in many ways. HRM is one of the factors for critical success of both banks competitiveness.

People's bank and BOC bank consist systematic PAS which helps to do their work smoothly but there are some weaknesses which are identified by way of employee's information.

There are very few studies carried out in Sri Lanka in respect of employee performance evaluation including a research carried out by the researchers (Hussainali & Opatha, 2008) focused on PAS and business performance of Sri Lanka appraisal industry. Another researcher carried out by the researcher (Opatha, 2003) focused on 'Employee Performance evaluation system: An Evaluation Study so Selected Public Quoted Manufacturing Firms in Sri Lanka'. Another research conducted by (Saradana, 2004) focused on 'Evaluating and Grading of Performance a Framework for hospital'. Further a research carried out by the researcher, (Kamila umah, 2008) focused on 'Impact of Effective Performance Appraisal System on Perceived Performance of Oxfam: Empirical study to Batticaloa and Trincomalee Branches.

In addition, Velnampy, (2006) focused on Performance and its impact on organization commitment: A comparative study of state and private sector banks in Sri Lanka in Vauniya and Jaffna district. Therefore the above researchers have only focused on PAS with different variables and different organizations. So it is possible to note that no prior studies were carried out on Impact of Effective Performance Appraisal System on Employee's Commitment in these banking sectors. It seems that there is a gap in this knowledge about testing the relationship between performance appraisal system and employee commitment in the state banking sector in Sri Lanka. .

Therefore the researcher is interested to do this research proposing the issue that whether performance appraisal system significantly and positively relates to employee commitment in the banking sector.

It is possible to note that no prior studies were carried out on PAS and Employee Commitment in both of these banks. It seems that there is gap in this knowledge testing the relationship between PAS and Employee Commitment. This paper focuses on addressing the following research problems:

1. Is there a significant relationship between PAS and Employee Commitment
2. To what extent the level of impact between performance Appraisal systems and commitments is exist in the state banks in Sri Lanka?

The objectives of the paper are to investigate whether PAS significantly relates to employees commitments for banks in Trincomalle district; to find out the effectiveness of the PA system, employee commitment in People's bank and BOC; and to explain how current PAS should be re-designed to improve employee commitment.

## Research Framework

**Performance Appraisal System:** Opatha (2002) described the purposes of performance evaluation can be divided into two categories i.e. management purposes and informative purposes: Hereby it is possible to mention that the aggregate purpose of performance evaluation is to improve the overall efficiency and effectiveness of an organization through development of human performance as well as development of employees.

Purposes should be very carefully thought out, defined and published (Tyson and York, 2000).

Establishing objectives of performance evaluation is the first step of the process of performance evaluation (Opatha, 2002).

Any organization attempting to do a PE successfully should formulate clear, appropriate policies in respect of various issues involved in PE (Opatha, 2002). He also noted that without performance evaluation criteria meaningful and accurate performance evaluation cannot be carried out. Having decided performance evaluation criteria, performance evaluation standards should be determined (Opatha, 2002). Also the standards should be observable and measurable and a time frame should be specified.

Performance evaluation methods refer to techniques that can be used in evaluating job performance (Opatha, 2002). In fact, by looking at the performance evaluation form in an organization it is possible to judge nature and quality of performance evaluation in that organization to a certain extent (Opatha, 2002). He also noted performance evaluation procedure is the method used for handling the performance evaluation form basically. Separate training sessions should be for at least three groups: raters, ratees, and all decision-makers and analysts (Ferris

et al., 1998; Tyson and York, 2000). Regardless of which appraisal method is used, appraisers must be coached in how to use it properly for the success of any appraisal system (French, 1997).

After an appraisal system has been designed and developed, it must be implemented (Bernardin and Russell, 1998). They also recommended that actually putting the system into operation requires the following steps: training, integration with the organization's human resource information system (HRIS), and a pilot test. Raters should provide feedback, which is clear, descriptive, job-related, constructive, frequent, timely, and realistic (Ferris et al., 1998). Nickels et al. (1999) describe that discussing an employee's successes and areas that need improvement can provide managers with an opportunity to be understanding and helpful and to guide the employee to better performance.

Review refers to a systematic attempt to find out whether the program is being carried out in to manner it was planned and to determine whether improvements can be made for successful program (Opatha, 2002), He also noted that renewal refers to reprogramming of the performance evaluation program so as to incorporate all the improvements determined through the review.

**Employees' Commitment:** The new look HRM focuses more on commitment than on mere compliance. With the high costs involved in employee selection and recruitment, companies are increasingly concerned with retaining employees. Generating employee commitment is an important consideration for large and small organizations. Commitment is one of the factors of HRM policy for an effective organization. Many major reviews of commitment theory and research are available (Mathieu & Zajac, 1990; Meyer & Allen, 1991, Meyer & Herscovitch, 2001 as in Shanwaz and Juyal, 2006).

Commitment has been defined as having a strong belief in an organization's values and goals, such that a person desires to maintain a part of the organization and is willing to expend considerable effort for the organization. In short commitment is something like loyalty (Porter, Steers and Mowday, 1974 as in Velamby, 2006).

Meyer and Allen (1991) as in (Kazlauskaitė, Buciniene and Turauskas, 2006) distinguish three types of organizational commitment: affective commitment – employees' emotional attachment and involvement in the organization; continuance commitment – continuation of employment inspired by the costs associated with leaving the organization, and normative commitment – obligation to continue employment resulting from externally exerted pressure. Of the above three forms of commitment, affective commitment may be considered most desirable for an organization, as employees with high affective commitment are more likely to willingly contribute to the organizational performance and even do more than it is expected from them (Kazlauskaitė, Buciniene and Turauskas, 2006)

Commitment can be summarized as the desire of employees to remain in the organization, exerting work effort while accepting organizational goals (Putterill and Rohrer, 1995).

Employees in a firm are required to generate a total commitment to desired standards of performance to achieve competitive advantage (Hussainali and Opatha, 2008). Employee PA monitors how far and how well employee perform their jobs. PA identifies measures and develops job performance of an employee in an organization.

Effective performance appraisal systems help to create a motivated and committed workforce. To be effective they require the support of top management to show their commitment and to translate organizational

goals and objectives into personalized employee specific objectives. Putterill and Rohrer (1995) noted the performance feedback is one of the antecedent conditions reflect the prevailing state of employee commitment. Maintain the importance of such human resource practices as appropriate feedback systems, teamwork, and delegation of relevant decision-making and responsibility to each employee, which, among other managerial practices, may be implemented by means of employee empowerment to develop employee commitment (Kazlauskaitė, Buciniene and Turauskas, 2006).

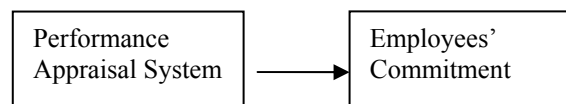
Accordingly, the following hypothesis was developed:

H<sub>1</sub>: Perceived Systematic use of Performance Appraisal System of a firm is significantly and positively related to Employee Commitment.

The null hypothesis is as follows:

H<sub>0</sub>: Perceived Systematic use of Performance Appraisal System of a firm is not significantly and positively related to Employee Commitment.

Figure 1 presents the relevant schematic diagram. Performance appraisal system is labeled as the independent variable and employees' commitment is labeled as the dependent variable. Figure 1 schematic diagram of the research frame work:



**Method**

**Study Design**

The researchers were interested in investigating whether performance appraisal system (PAS) relates to employees' commitment of bank employees. There was no intention of establishing definite cause effect relationship between the two variables. The type of

investigation of this study was correlational rather than causal. Because this study attempted to analyze the relationship between the dependent variable and independent variable, this study was analytical in nature or purpose. Study was conducted in the natural environment of the organization with direct interference by the researchers with the normal flow of work. The researchers used a questionnaire to individuals. Hence, the extent of research interference was high as this study was a field study.

Population of this research included the banks in Trincomalee District. There are 327 Peoples' Bank branches and 307 BOC branches are found island wide and 6 branches of these both banks are found in Trincomalee District. Name of these branches are Muttur, Kinniya and Trincomalee.

Simple random sampling method was applied. Accordingly, selected sample size for the study was 85 ( $n = 85$ ) which accounts to a random selection of 75% of the population ( $n = 114$  employees) in order to make the sample more representative. The 75% sample was drawn from each selected bank in the Trincomalee district. Structured questionnaire was developed and distributed among the selected employees in the banks. It was possible to collect whole questionnaire from 6 branches in Trincomalee district.

### Measures

**Performance Appraisal System:** In attempt to operationalize the variable of performance appraisal system, it was divided into nine related dimensions: objectives of PAS, policies of PAS, criteria and standards of PAS, form and procedure of PAS, training, appraising, discussion, decisions and store and review and renewal (Opatha, 2002; Managaraj, 1998; Bolton, 1999; French, 1997; Bernardin and Russell, 1998). The questionnaire assesses dimensions of job design such as objectives of PAS, policies of PAS, criteria and standards of PAS, form and procedure of PAS, training, appraising, discussion, decisions and store and review and renewal. The 28 question items are divided into 9 factors: objectives of PAS, policies of PAS, criteria and standards of PAS, form

and procedure of PAS, training, appraising, discussion, decisions and store and review and renewal. A 5-point Likert scale is used to evaluate answers.

**Employee Commitment:** The perceived degree of employee commitment was operationalized into three dimensions regarding dependent variable, employee commitment, it consists 07 question items under the affective commitment, 07 question items under the continuance commitment, and 04 question items under the normative commitment. Among all these questions 46 items were organized by using five-point Likert Scale for the responses.

### Techniques of Data Analysis

Data was collected through questionnaire survey, each questionnaire was carefully scrutinized and confirmed that all the questionnaires received back had been filled properly. All returned questionnaires were serially numbered and the information contained was transferred to worksheets by assigning with scores. Then they were checked for accuracy and fed to the computer for performing statistical analysis with Statistical Package for Social Science (SPSS). Both descriptive and inferential statistics can be obtained by using Personal Computer (PC) software programs designed to enter data, edit and analyze them, and produce results for various types of data analyses.

The data analysis of this study involved two types of analyses i.e., Univariate analysis (involving one variable at a time) and Bivariate analysis (involving two variables at a time). Under Univariate analysis descriptive statistical techniques were used such as frequencies, central tendencies and dispersions of the dependent and independent variables. By using frequency distribution it was analyzed how the responses were spread or distributed in the various subcategories of each variable.

In this study it was possible to use the mean and the standard deviation which are appropriate indicators of central tendency and dispersion because the interval scales were used as the basis of measurement. In addition, the standard deviation is an important concept for descriptive statistical

because it reveals the amount of variability of individuals within the dataset.

Under the Bivariate analysis, parametric tests were used because the data were collected on interval scales and data was normally distributed. Pearson correlation coefficient was used by the researcher to reveal the strength of two variables for interval scale.

**Results**

The alternative hypothesis formulated for the study was that perceived systematic use of Performance Appraisal is significantly and positively related to its employees' commitment. The relevant null hypothesis is stated that there is no relationship between perceived systematic use of Performance Appraisal and its employees' commitment. The appropriate statistical test was Pearson Correlation Coefficient in order to test alternative hypothesis. Desired level of significant level was 0.05. Two tailed test was used as the formulated alternative hypothesis had been non directional. Following Table 2 presents the results of the correlation test.

**Table: 2 Correlation between Performance Appraisal System and Employees' Commitment of People's bank**

Pearson correlation	0.564
Sig. (2-tailed)	0.000
N	42

(Source: Survey data)

According to table 2, Pearson correlation of Performance Appraisal System and Employee Commitment (r) is 0.564 which is significant at 0.01 levels. It indicates that there is positive relationship between Performance Appraisal System and Employee Commitment. As the significant value (0.000) is smaller than the desired level of significance (0.005), the found correlation coefficient (0.482) is statistically significant. Hence alternative hypothesis can be accepted while rejecting the null hypothesis. Therefore, there is statistical evidence to claim that there is a significant relationship between perceived systematic use of

Performance Appraisal System and Employee Commitment in Peoples Bank.

**Table: 3 Correlations between Performance Appraisal System and Employees' Commitment in BOC**

Pearson correlation	0.412
Sig. (2-tailed)	0.000
N	43

(Source: Survey data)

According to table 3, Pearson correlation of Performance Appraisal System and Employee Commitment (r) is 0.412 which is significant at 0.01 levels. It indicates that there is positive relationship between Performance Appraisal System and Employee Commitment. As the significant value (0.000) is smaller than the desired level of significance (0.005), the found correlation coefficient (0.309) is statistically significant. Hence alternative hypothesis can be accepted while rejecting the null hypothesis. Therefore, there is statistical evidence to claim that there is a significant relationship between perceived systematic use of Performance Appraisal System and Employee Commitment in BOC.

**Discussion**

This study found empirical evidence to support the hypothesis of perceived systematic use of Performance Appraisal System is significantly and positively related to its Employees' Commitment. It is more likely that systematic use of Performance Appraisal System is significantly and positively contributes to employees' commitment of a firm. This finding empirically confirms the theoretical arguments given by Putterill and Rohrer (1995) and (Kazlauskaitė, Buciuoniene and Turauskas, 2006). They explained that strong, positive relationships exist between the extent of a firm's adoption of high involvement HRM strategies including PAS and Employees' Commitment.

The organization's performance appraisal system has been analyzed by the researcher and found that the organization used

effectively its appraisal system to employees' commitment. Based on the result of univariate analysis carried the degree of systematic quality level of each dimension of PAS and of employee commitment is shown in the table below.

**Table: 4 Results of measurement of PAS and Employee Commitment in Peoples bank and BOC**

Variables	Peoples' bank			BOC		
	Mean	SD	Level	Mean	SD	Level
Performance appraisal system	112.19	7.52	High	108.56	8.16	High
Purpose of PAS	21.31	1.60	Very High	20.28	1.98	High
Policies of PAS	17.98	1.58	High	18.47	2.21	High
Criteria and standards of PAS	20.33	2.02	High	19.63	1.64	High
Forms and procedure of PAS	17.00	1.79	Very High	15.81	2.25	High
Evaluator training	4.21	0.60	Very High	4.21	0.67	Very High
Appraisal interview	20.07	2.25	High	18.74	2.65	High
Decision making and storing	4.21	0.68	High	4.14	0.83	High
PAS review and renewal	7.07	1.26	High	7.28	0.93	High
Employee commitment	59.83	6.42	Moderate	50.95	6.12	Moderate

(Source: Survey data)

According to table 4 this study concerned that the degree of systematic utilization/quality of Employee Performance Appraisal System in Peoples Bank with the mean value of 112.19 and the standard deviation of 7.52 is high and the level of Employee Commitment with the mean value of 59.83 and the standard deviation of 6.42 is moderate in Peoples Bank. Similarly, Employee Performance Appraisal system in BOC with the mean value of 108.56 and the standard deviation of 8.16 is high and the level of Employee Commitment with the mean value of 50.95 and the standard deviation of 6.12 is moderate in BOC. The implication of this finding is that there is a need to improve the PAS of State Banks to eliminate the weaknesses in the PAS and to improve the Employee Commitment in State Banks.

The study found the evidence to support the hypothesis perceived systematic use of

performance appraisal system of a firm is significantly and positively related to its employee commitment. It is more likely that systematic use of Performance Appraisal System strongly contributes to Employee Commitment positively and significantly for the purpose of enhancing quality level of performance appraisal, it is essential to work on the following dimensions, i.e. PA policies, PA criteria and standards, feedback discussion, make decision and store them and review and renewal in Peoples' Bank. At the same time, PA objectives, Policies, criteria & standard, feedback interview, decision making & storing, review & renewal dimension of PAS on BOC should also be improved. This will support to a high level employee commitment from a moderate level employee commitment. A firm should adopt a more systematic performance appraisal system in order to improve its employee commitment.

**CONCLUSION**

The result of the study lead to confirm the prediction made by the researcher regarding a significant and positive relationship between perceived systematic use of performance appraisal system and perceived degree of employee commitment of Peoples Bank and BOC in Sri Lanka. It is more likely that an improvements of the quality of PA system of both banks results in a high level improvements of employee commitment within these banks. Study concludes that the perceived quality of employee performance system in both banks is high and employee commitment is in moderate level. Some of the weaknesses identified in the current Performance Appraisal System in the banks emphasis to improve the system to achieve the high level of Employee Commitment.

**References**

Benardin, H.J., & Russell, J.E. (1998), Human Resource management; An Experiential Approach, 2<sup>nd</sup> Ed.

Bolton, T. (1999), Human Management: An Introduction, Blackwell Publishers.

Ferris, G.R., Rosen, S.D., & Barnum, D.T. (1998), The Manual of Human Resource

Management, 1<sup>st</sup> Indian ed., Beacon Books, New Delhi.

French, W. (1997), Human Resource Management, 3<sup>rd</sup> ed., All Indian Publishers & Distributors, Chennai.

Hussain Ali M.A.M and Opatha, H.H.D.N.P, (2008), Performance Appraisal System and Business Performance : An Empirical Study in Sri Lankan Apparel Industry, Sri Lanka Journal of human Resource Management, Volume 2, No1, pp 74-90.

Kazlauskaitė, R., Buciušienė, I. and Turauskas, L (2006). "Building employee commitment in the hospitality industry", Baltic Journal of Management, Vol. 1 No. 3, pp. 300-314.

Kamila umah, S.S (2008), "Impact of effective Performance Appraisal System on Perceived Performance of Oxfam: Empirical Study to Batticaloa and Trincomalee Branches," Unpublished Thesis, South Eastern University of Sri Lanka

McAfee, B.R & Champagne P. J, (1993), Performance Management: A Strategy for Improving Employee Performance and Productivity Journal of Managerial Psychology, Vol 8 No5, PP.24-32, MCB University Press, ISBN 0268.3946.

Managaraj, S. (1998), 'Performance Appraisal Practices in the Rourkela Steel Plant- A Study', Management & Labour Studies, Vol. 23, No.2, PP. 319-327.

Nickels, Mc Hugh, & Mc Hugh. 1999, Understanding Business, 5<sup>th</sup> Ed, McGraw Hill Co, USA.

Opatha H.H.D.N.P, (2002), Performance Evaluation of Human Resource Management, 1<sup>st</sup> Edition, Colombo, Sri Lanka: the Author Publication.

Opatha H.H.D.N.P, (2003), Employee Performance Evaluation System: An Evaluation study of Selected Public Quoted Manufacturing Firms in Sri Lanka Subaragamuwa University Journal Volim-3 Number-1, ISSN-1391-3166 pp137-156.

Opatha H.D.N.P,( 2009), Human Resource Management, 1st Edition , Colombo, Sri Lanka: the Author Publication.

Perera, T, (2002), Employee Commitment: A Study of Selected High Performing Companies in Sri Lanka; Sri Lanka Journal of Management Vol.7, No 3&4, July-December, 2002.

Putterill, M.S. & Rohrer, T.C. (1995), A causal model of employee commitment in a manufacturing setting, International Journal of Manpower, Vol. 16 No. 5/6, 1995, pp. 56-69.

Saradana G.D.: Evaluating and Grading of Performance a Framework for Hospital', Sri Lankan Journal of Management, Volume-9, Number-1&2, January -June-2004

Shahnawaz M.G and Juyal C. J, (2006), Human Resource Management Practices and Organizational Commitment in Different Organizations, Journal of the Indian Academy of Applied Psychology July 2006, Vol. 32, No. 3, 171-178.

Tyson, S. & York, A. (2000), Essentials of Human Resource Management, 4<sup>th</sup> Ed, Butterworth Heinemann, Linarce House, Oxford.

Velampy T , (2006), Performance and its impact on Organizational Commitment: A comparative study of State and Private Sector Bank in Sri Lanka , Journal of Management ,October, Vol-IV, Number.1, pp19-15—