

## **Impact of Performance Appraisal on Organizational Performance of Service Organizations in Nepal**

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### **Abstract**

*In the current business world, humans are considered as the success factor for any business. For this reason, reputed business firms are trying to hire the best human resource that is available in the market so that the firms can maintain its image and goodwill in the future as well. This study is based on the impact of performance appraisal on organizational performance of service sector institutions consisting of hospitals of Nepal. It is found that the performance appraisal systems have positive correlation with organizational performance. Regression coefficients of performance appraisal positively contribute to organizational performance explained by employee commitment, quality work life and work flexibility. It means that if Nepalese service sector invests a significant amount and effort for development of proper performance appraisal system, it can improve organizational performance.*

**Keywords:** performance evaluation, organizational performance, quality work life, employee commitment, work flexibility

### **Introduction**

The current economic atmosphere characterized by globalization, deregulation of markets and constant change in customer and investor demands, competition has become vital for the survival of any organization. Competitiveness is the core of any business organization (Denisi & Kluger, 2006). The market experiences savage competition and only those who offer better products than the best will survive. Baylis, Gray, and Wirtz (2016) agree that in the contemporary markets, organizations must incessantly improve performance through cost reduction, product, and process innovation to improve quality, productivity, and speed to market. However, according to Dutta and Lawson (2009) there is a new avenue for firms to gain competitive advantages in the market. Through the organization's greatest asset, that is the human resource. Managing the workforce is vital in improving competence and performance through increased individual performance. Executives understand that the ability of an organization to achieve its targets is its competitiveness especially through its labor force.

Employee performance in the organization is determined through performance management practice. In recent years the use of performance appraisal practice has increased in many organizations. Performance appraisal systems are implemented in organizations worldwide (Palethorpe, 2011). The major setback of evaluating the work performance of organizations around the world has been to determine the performance criteria in relation to the objective set by their organizations (Parker, Waller, & Xu, 2013). Performance appraisal systems cause strategic evolution and ensure goal congruence. Performance appraisal is associated with creating a shared vision of the aims and purpose of the organization, helping each individual employee to understand and recognize their part in contributing to the organizational goals which help to manage and enhance employee and organizational performance (Williams, 2002). Performance appraisal cycle begins and ends with formulating clear objectives for the organization (McDavid & Hawthorn, 2005).

### **Statement of Problems and Research Questions**

Recent years have seen an increase in their use among organizations motivated by the desire to drive employees' behaviors and attitudes and ultimately the team's performance. Establishment of goals and objectives at the beginning of financial years for organizations provide employees with clear performance targets and enables the managers to monitor performance during the cycle. Performance appraisals help reinforce good performance, alert managers to the need for training and development in certain areas or the need to offer assistance to a poorly performing personnel and establish systems or reward and promotions all geared towards improving performance.

Two separate studies; one conducted by Kansal and Singh (2011), concluded that the performance appraisal system motivates employee's attitudes towards improved performance. Another study conducted by Bhattacharya, Momaya, and Iyer (2012) focused on performance evaluations as a strategic management style and found that performance appraisals formed a balanced approach to managing issue of performance in organizations. Two more studies; one by Hult, Morgeson, Morgan, Mithas, and Fornell, (2017), the other by Greenan and Lorenz (2013) focused on the effect of performance appraisals on perceptions of organizational, market performance of the firm, and concluded that the single most significant variable affecting corporate performance was training and development, which is a role of performance appraisals. The study is different from other existing studies as it focuses on an organization with renowned performance outcomes of service industry. This study is conducted with the aim of solving following research questions:

- What is the situation of performance appraisal and organizational performance in service sector organizations in Nepal?
- What is the correlation between performance appraisal and organizational performance of sector organizations in Nepal?
- What is impact of performance appraisal and organizational performance of service sector organizations in Nepal?

### **Objective of the Study**

The purpose of the research work is to investigate the extent of performance appraisals in measuring performance of service sector organizations. This study focuses to assess the performance appraisal system in Nepalese service sector organizations and know their impact on organizational performance. However, the following are the specific objectives of this research work.

- To know the situation of performance appraisal and organizational performance in service sector organizations in Nepal.
- To assess the correlation between performance appraisal and organizational performance of sector organizations in Nepal.
- To examine the impact of performance appraisal and organizational performance of service sector organizations in Nepal.

### **Significance of the Study**

Performance appraisal is a tool used by the organization to review and evaluate the performance of employees over a certain period of time. Cumming (1972) established that the overall objective of performance appraisal is to improve the efficiency of an enterprise by attempting to mobilize the best possible efforts from individuals employed in it. Williams (2002) stated that in many organizations, performance appraisals are expected to fulfill numerous functions including feedback, coaching, goal setting, skills development, pay determination, legal documentation, employee comparison and layoff selections. Aforo and Antwi (2012) postulated that performance appraisal system is comprised of setting goals, communicating feedback, participation and incentives for employee's performance. Watson (2016) disclosed that performance appraisal remains the primary way of discussing and acting on the development of the individual. Rogers and Wright (2008) found evidence of a positive relationship between satisfaction and acceptance of performance appraisal outcomes with employee perceptions that their supervisors encouraged participation, assisted in goal setting and provided frequent feedback. The success of the business organizations largely depend on the effectiveness and quality of the services that they provide to the customers. Keeping these views into

consideration, this study is expected to be fruitful to explore the performance appraisal system in the organizations and its impact on overall performance of the organizations.

### **Literature Review**

Performance appraisal is a formal and systematic assessment of the performance of employees by managers and directors to understand the labor force regarding abilities to further growth. The process involves managers measuring and evaluating job-related behaviors of their employees and the outcomes to determine the level of employee performance and explanations and ways to improve the current levels of performance in future for the benefit of the organization (Walker, Damanpour, & Devece, 2011). The appraisals take a systematic approach where supervisors measure employee's remuneration against set targets and plans (Kuvaas, 2006). Directors then take into account factors influencing the results of the appraisals from the employees. The employers are then in a position to guide their labor force to improved performance. Kate (2008) argued that the primary purpose of the process is to identify and manage the performance of the organization. Organizational performance is an analysis of a firm's performance in comparison to the set goals and objectives. The recurring activities are often the primary role of leaders in organizations. As a leader in an organization's hierarchy, it is imperative to know the determinants of organizational performance (Watson, 2016.) It allows managers to identify the key factors to prioritize to develop organizational performance. The analysis should enable managers to address deficiencies and use the information gained to improve the company systems when it comes to customer service, investor demands and employee motivation (Rock & David, 2015). According to Newstrom (2011), there are several factors to be considered to ensure that the performance appraisal instrument is user-friendly. The common types of performance appraisal are behavioural rating scale, through management by objectives, and 360<sup>0</sup> performance appraisal.

**Behavioural Rating Scale:** Behaviour checklists provide a rater with a list of descriptions of job-related behaviors which have to be marked if they are descriptive of the individual being rated (Erasmus et al., 2005) and once the checklist is complete the human resource staff evaluates by scoring the checklist and weighing the factors in relation to their importance to the Job (DeCenzo & Robbins 2010. Clark (2011) pointed out that graphic rating scale technique is typically used to assess a person's quality and quantity of work, as well as a variety of personality traits such as reliability and co-operation while critical incidents direct the rater's attention on those critical aspects that make the difference between doing the job effectively and doing it ineffectively.

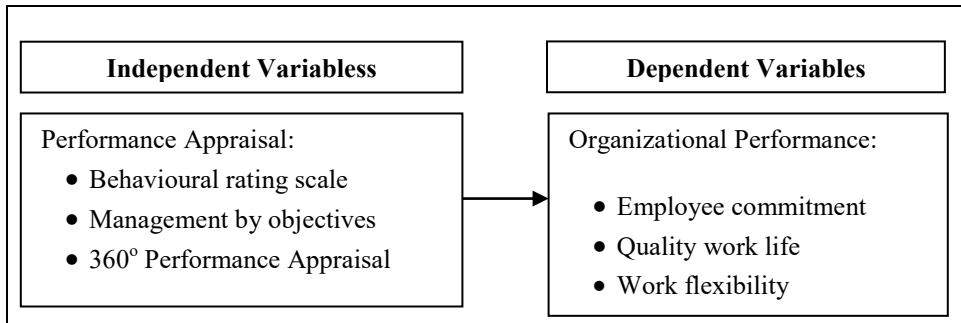
**Management by Objectives (MBO):** Management by objectives was introduced and named management by objective by Peter Drucker in 1954 aimed at setting the common goals of the organization and at the same time set the areas of responsibility of individual employee in the organization. Management by objectives involves supervisor and subordinates mutually establishing and discussing specific goals and formulating action plans while supervisors help their subordinates to reach their set goals and at the same time reviewing the extent to which objectives have been attained (Erasmus et al., 2005). According to DeCenzo and Robbins (2010), management by objectives evaluates employees on how well they accomplished a specific set of objectives that have been determined to be critical in the successful completion of their job.

**360° Performance Appraisal:** Rees and Porter (2003) explained 360-degree appraisal as a process that involves the key people in a person's network of working relationships making assessments of a person's performance. It focuses on giving good appraisal results by making appraisal the process more transparent, objective and participative. Allen and Wright (2008) asserted that a 360-degree appraisal is an approach to performance appraisal that involves gathering performance information from people on all sides of the manager. DeCenzo and Robbins (2010) argued that the 360-degree appraisal is an appraisal device that seeks performance feedback from sources such as oneself, bosses, peers, team members, customers and suppliers.

In this study organizational performance is measured in terms of HRM outcomes which involve employee commitment, quality service and work flexibility (Guest, 2002). *Employee commitment* is the psychological attachment and the resulting loyalty of an employee to an organization. A large numbers of studies have been conducted to investigate the concept of organizational commitment. Meyer and Allen (1991) described three dimensional model of commitment: Affective, Continuance and Normative. *Quality service* refers to quality of employees working in the organization and quality of service they provided to the organization. Quality of employees focuses on ability, skills and knowledge of the employees in their concerned area of function and quality of service emphasizes on their dedication and hardworking to maintain quality of products and service of the organization. *Work flexibility* refers to availability of flexibility in work schedule on the basis of formal rules and system of the organization and adjustment of employees in defined work schedule of the organization. At present many business organizations especially service oriented organizations are providing twenty-four hour service to the customers. For this purpose it is essential to develop flexible work schedule for the employees to adapt them in their service time.

**Framework of the Study**

This study focused on behavioural rating scale, management by objectives and 360° performance appraisal as the dimensions of performance appraisal. Organizational performance is represented by employee commitment, quality work life and work flexibility. Based on the study of various literatures, the research framework is presented on Figure 1.



*Figure 1.* Research framework

**Nature of Research**

This study is based on primary data obtained by distributing questionnaires to selected respondents. Therefore, it is descriptive, co-relational, causal comparison type of research. In this research some selected performance appraisal related variables have been taken into account for getting feedback from both managerial and assistant level employees of B & B Hospital Pvt. Ltd. and Bhaktapur Hospital. In this study it is tried to find out the impact of performance appraisal and organizational performance.

**Research Design**

The research designed adopted in this study consists of descriptive, co-relational, and causal comparative research design to analysis the various issues are raised. The descriptive research design is used for the purpose of fact-finding, conceptualization, description, and operation searching for adequate information in the context of performance appraisal and its impact of organizational performance in Nepalese service sector organizations. The research design adopted in this study, impact of performance appraisal on organizational performance, is identical to the previous researches (Armstrong, 2012; Guest, 2002; DeNisi & Griffins, 2008) taken place.

## **Research Hypothesis**

The broad objectives of this study are to explore the relationship between performance appraisal and organizational performance of Nepalese service sector organizations specially hospital institutions. Its objective is also to compare the result obtained in the public and private service sector hospitals. On the basis of above objectives and relation, following hypotheses are explored:

Hypothesis 1: There is a positive and significant relation and effect of performance appraisal on employee commitment.

Hypothesis 2: There is a positive and significant relation and effect of performance appraisal on quality of work life.

Hypothesis 3: There is a positive and significant relation and effect of performance appraisal on work flexibility.

Hypothesis 4: There is a positive and significant relation and effect of performance appraisal on organizational performance.

## **Sources and Nature of Data**

For the purpose of fulfillment of the objectives of the research, necessary data and information was collected through primary sources i.e. questionnaire. Data used in this study were collected from B & B Hospital Pvt. Ltd. and Bhaktapur Hospital. In this survey research, two categories of information namely detail information of respondents about performance appraisal and organizational performance was collected. The questionnaire was developed from prior literature as used by Guest (2002). Basically, normative theory of maintaining link between performance appraisal and organizational performance was taken into account in this research work.

## **Population and Sample Size**

The tools are used by the researcher with the help of academician friend circle and guidance from professionals. The researcher explained the purpose of the study and all aspects of the questionnaire to the respondents. The selected respondents are employees working in different levels consisting of managerial, officer and assistant levels. They are made to understand that all information being provide would be treated with confidentially and for the purpose of research only. In this study, employees of B & B Hospital Pvt. Ltd. and Bhaktapur Hospital are taken into account as samples to analyze. In total 424 questionnaire have been distributed and 388 (91.51%) copies that are completely filled and returned are utilized for the purpose of the study.

**Effect of Performance Appraisal Variable on Organizational Performance**

Landy, Barnes, and Murphy (1978) studied employee perceptions of the fairness and accuracy of a performance appraisal system. They found that frequency of evaluation, identification of goals to eliminate weaknesses, and supervisory knowledge of a subordinate’s level of performance and job duties were significantly related to perceptions of fairness and accuracy of performance appraisal. In practice it is found that there is significant relation between performance appraisal of employees and their performance in the organization. The performance appraisal should be done as frequently as possible, that the supervisor should work with the subordinate to agree on responsibilities; and, that the supervisor should devote sufficient time to observe and evaluate and employee’s performance. It would be supportive for the development of self responsibility among the employees which can support for improving employees' as well as organizational performance.

The employee commitment, quality service, work flexibility and organizational performance are considered as dependent variable Y and performance appraisal as independent variable (PA). The estimated regression model is presented on Table 1.

Table 1  
*Regression Model*

| Employee Commitment                        | Quality Service          | Work Flexibility         | Organizational Performance |
|--|--------------------------|--------------------------|----------------------------|
| $Y = a + bPA$                              | $Y = a + bPA$            | $Y = a + bPA$            | $Y = a + bPA$              |
| $Y = 14.395 + 0.270PA$                     | $Y = 14.863 + 0.318PA$   | $Y = 14.220 + 0.322PA$   | $Y = 43.478 + 0.910PA$     |
| $T = (20.846) (8.502)$                     | $T = (24.021) (11.158)$  | $T = (22.505) (11.078)$  | $T = (28.243) (12.845)$    |
| $R = 0.372$<br>$= 0.138$                   | $R = 0.465$<br>$= 0.216$ | $R = 0.463$<br>$= 0.214$ | $R = 0.518$<br>$= 0.268$   |
| Adjusted = 0.136                           | Adjusted = 0.215         | Adjusted = 0.212         | Adjusted = 0.266           |
| F- Value = 72.279                          | F- Value = 124.506       | F- Value = 122.714       | F- Value = 165.013         |
| P – Value for overall significance = 0.000 |                          |                          |                            |

The calculated value of F for employee commitment, quality service, work flexibility and organizational performance are 72.279, 124.506, 122.714 and 165.013 respectively and p – value for f test is 0.000 for all the variables. It means F – value is significant at 5% significant level. The regression model used in this study is fit. It shows the existence of effect of performance appraisal on employee commitment, quality service, work flexibility and organizational performance.

The  $R^2$  for employee commitment, quality service, work flexibility and organizational performance are 0.136, 0.215, 0.212 and 0.266 respectively. It shows that 13.6%, 21.5%, 21.2% and 26.6 % variability in employee commitment, quality service, work



flexibility and organizational performance respectively is explained by performance appraisal. Thus, independent variable performance appraisal contributed to employee commitment, quality service, work flexibility and organizational performance to a moderate extent along other variables of human resource management practices.

### Summary of the Study

In respect of individual variable performance appraisal, the calculated value of  $t$  are 8.502, 11.158, 11.078 and 12.845 for employee commitment, quality service, work flexibility and organizational performance respectively and  $p$  - value is 0.000 which is highly significant at 5% level of significance. Data analysis result clearly shows that there is significant effect of performance appraisal on employee commitment, quality service, work flexibility and organizational performance respectively. Data analysis result clearly shows that there is significant effect of performance appraisal on organizational performance. This result is in conformity with the prior expected line. It shows that reliability based performance appraisal positively contributes to organizational performance explained by employee commitment, quality service and work flexibility in nominal degree. In study it is found that performance appraisal system is considered more valuable and effective in organization performance in private hospital as compare to government hospitals.

The primary purpose of this study was to evaluate the impact performance appraisal as best HR practice on organizational performance is identified by Pfeffer (1994) and Guest (2002). Based on Guest (2002), researcher hypothesizes that the following practices are related to organizational performance and performance appraisal. Regression coefficients of performance appraisal positively contribute to organizational performance explained by employee commitment, quality work life and work flexibility. This may mean that Nepalese service sector institutions consisting of hospitals try to identify competent candidates to get into the organization. It means that if Nepalese service sector invests a significant amount and effort for development of proper performance appraisal system, they can improve organizational performance.

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