

Relationship between Perceived Organizational Justice and Performance Appraisal Satisfaction: Insights of Employees

Prakash Shrestha, Ph.D.

Associate Professor

Nepal Commerce Campus, Tribhuvan University

E-mail: prakash.shrestha1@ncc.tu.edu.np

<https://orcid.org/0000-0002-6973-9343>

Sanu Babu Bhujel

Lecturer, Bhaktapur Multiple Campus

Faculty of Management

Tribhuvan University

E-mail: bhujelsanusir11@gmail.com

Sita Bhandari

Faculty of Management

Tribhuvan University, Kathmandu, Nepal

E-mail: bhandarisita070@gmail.com (Corresponding author)

<https://orcid.org/0009-0006-2380-6113>

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Abstract

This study examines the relationship between perceived organizational justice dimensions and performance appraisal satisfaction. This study adopts a quantitative research design. Data was collected from 250 structured questions that were distributed to employees of five financial institutions. Only 61.20 percent of them were found to be useful. The findings indicate that employees are more likely to be satisfied with their performance appraisal if they believe that rewards or results are distributed fairly. The findings show a significant relationship between overall satisfaction with performance appraisal and organizational justice in the results. Furthermore, overall satisfaction with the performance appraisal process has a positive relationship with the perceived organizational justice of the techniques used. Finally, the findings imply that employees who believe they receive equitable interpersonal treatment throughout the performance review process are also likely to be highly satisfied with their appraisal. Thus, the effectiveness of the appraisal system is also influenced by how unbiased it is perceived to be. For employees to accept the entire process and its results without question, the distributive, procedural, and interactional justice components should have a positive effect on them.

Keywords: Employees, Financial institutions, Insights, Perceived organizational justice, Performance appraisal satisfaction

Introduction

Employees are social beings, thus businesses must provide environments that encourage social interaction among them. The idea of justice is one that is essential to human social interaction. Justice issues inevitably surface in any social engagement, whether it be in the choice to promote someone, allocate work, distribute prizes, or in any other way. Justice in the workplace is referred to as organizational justice, and it affects how employees behave, think, and how well the business does (Shrestha, 2019).

Employees want their workplace to be fair. Employees' assessments of whether they have received fair treatment at work and how such assessments affect other work-related factors are the focus of organizational justice (Moorman, 1991; Shrestha et al., 2024). Organizational justice perceptions are "a basic requirement for the effective functioning of organizations and the personal satisfaction of the individuals they employed, which in turn shapes employee behaviors," according to Greenberg (1990). According to Colquitt et al. (2001), justice scholars have traditionally distinguished between three types of justice: distributive justice, which is the perceived fairness of outcomes; procedural justice, which is the fairness of the process used to decide who gets what outcome; and interactional justice, which is the interpersonal treatment received during the procedure's implementation (Shrestha, 2013, 2015; Parajuli & Shrestha, 2024).

Performance appraisal is one of the most important tools in human resource management (HRM) (Shrestha & Prajapati, 2023; 2024). It affects employee engagement, motivation, and overall organizational effectiveness. Employee satisfaction with performance appraisal, however, is mostly influenced by how fair they believe the company to be—a concept known as perceived organizational justice. Therefore, the relationship between perceived organizational justice and performance appraisal satisfaction is a crucial topic in human resource management and organizational behavior.

Performance appraisal is the practice of assessing an employee's job performance. The outcomes of performance evaluations and appraisals are frequently used to support HR data and make decisions pertaining to pay and salary administration, performance feedback, transfers, and promotions (Adhikari & Shrestha, 2022; Shrestha 2024, Shrestha, 2022). It gives employees feedback. They benefit from knowing where they are, where they should be heading, and how they plan to get there. Each employee's relative value to the company is evaluated. Reward allocation is based on it. Employee development planning is beneficial. It is crucial for increasing productivity. Employees should believe that the method for performance reviews is transparent, equitable, and fair. There will be numerous issues in the company if there is no appropriate structure or guidance for performance appraisal. All organizations generally conduct employee appraisals in a variety of methods. The performance appraisal system is being used by an increasing number of businesses in place of the supervisor's haphazard appraisal, which is based on their mood or their poor rating patterns. Rating scales, however, typically fall short of performance appraisal requirements. The performance appraisal system is frequently criticized in reality, despite the well-crafted rating scales and the supervisors' preparation. To close the gap between practice and performance appraisal research, researchers and practitioners made an effort (Moorthy, 2011). A performance

appraisal system seeks to evaluate and enhance worker performance by coordinating personal aspirations with corporate objectives. As a foundation for rewards, promotions, and career advancement, a fair and well-run appraisal system can boost employee motivation (Shrestha, 2023) and productivity, offer helpful criticism for professional growth, and improve the employer-employee relationship by encouraging trust and openness.

These days, the focus is on analyzing the organizational setting and the attitudes of employees and supervisors regarding appraisal. Numerous variables can be blamed for such performance appraisal system's failure, and organizational issues, attitudes toward such system, and the system's underlying aims are far more important than rating scales (based on numerous studies) or rating biases respectively. It would be worthwhile to look more closely at this scope in order to improve and guarantee the perceived justice of the performance appraisal system, as its acceptance and perceived fairness are essential to its successful operation and because most employees believe it to be unfair, according to some studies (Bretz et al., 1992).

Employee job performance depends on how satisfied they are with their jobs. In order to give them feedback on their work, a good performance appraisal system is also necessary for better work performance (Pradhan & Shrestha, 2022). But for the system to work, they have to think it's fair (Suliman, 2007). A performance appraisal process will only be seen as satisfactory by individuals if it satisfies the "fairness" requirements in terms of organizational justice (Cook & Crossman, 2004; Moorthy, 2011). Thus, this research indicates that employees' views of justice have an impact on their happiness with performance reviews.

Employees who perceive high levels of organizational justice are more likely to be satisfied with their performance appraisal, trust management decisions, and remain committed to the organization (Shrestha & Parajuli, 2024). Conversely, perceptions of injustice may lead to resentment, job dissatisfaction, and reduced work performance. Therefore, today's organizations must be serious about such critical issues while managing their employee at the workplace. In this regard, this study aims to examine the relationship between perceived organizational justice dimensions and performance appraisal satisfaction based on insights from employees working in financial institutions.

Theoretical Framework and Research Hypotheses

The relationship between perceived organizational justice and performance appraisal satisfaction can be explained through several theories. Equity Theory (Adams, 1965) advocates that employees compare their efforts and rewards with those of others. If they perceive unfairness in performance appraisals, dissatisfaction, and demotivation may occur. Likewise, Justice Theory (Greenberg, 1987) emphasizes the importance of fair treatment and transparent decision-making processes in shaping employees' attitudes. Furthermore, the Expectancy Theory (Vroom, 1964) suggests that employees will be more satisfied with performance appraisals if they believe the evaluation process is fair and the rewards are attainable. In fact, all three dimensions of organizational justice (namely distributive justice, procedural justice, and interactional justice) play a major role in enhancing

performance appraisal satisfaction. Based on these theories, this study formulated the following hypotheses:

H1: Perceived distributive justice is positively related to performance appraisal satisfaction.

H2: Perceived procedural justice is positively related to performance appraisal satisfaction.

H3: Perceived interactional justice is positively related to performance appraisal satisfaction.

Research Methods

This study adopts a quantitative research design to examine the relationship between perceived organizational justice and performance appraisal satisfaction among employees. Employees working in Nepalese financial institutions including banks, insurance companies, and finance companies where formal performance appraisals are conducted are the population for this study.

The employees of five financial institutions were given a total of 250 structured questionnaires through email and online surveys (Google Forms), as well as hard copies for those who preferred to respond on paper. Only 153 (61.20 percent) of the 250 completed surveys were returned as useable. A 5-point Likert scale (1 being strongly disagree and 5 being strongly agree) was used to measure the responses.

Table 1: Demographic Characteristics

Age	Frequency	Percent
Under 20	3	1.96
21 - 34	130	84.97
35 - 44	9	5.88
45 - 54	7	4.58
55 and above	4	2.61
Gender		
Male	77	50.33
Female	76	49.67
Education		
SLC/ High School	3	1.96
Certificate (+ 2)	9	5.88
Bachelor	39	25.49
Masters	100	65.36
M. Phil.	2	1.31
Total	153	100
Job Position		
Low-level	105	68.63
Middle-level	43	28.10
Top-level	5	3.27
Types of Financial Institutions		

Banks	69	45.10
Insurance Companies	65	42.48
Finance Companies	19	12.42
Years of Experience		
0 - 4 years	74	48.37
5 - 9 years	64	41.83
10 - 19 years	7	4.58
20 - 29 years	4	2.61
30 years and above	4	2.61

There are three parts to the questionnaire. Demographic data (age, gender, education level, job position, type of financial institution, and years of experience in the organization) are included in the first part. Niehoff & Moorman's (1993) Organizational Justice Scale was used to measure perceived organizational justice in the second segment. The Keeping & Levy (2000) Performance Appraisal Satisfaction Scale was used to measure performance appraisal satisfaction in the final portion of the survey. Correlation analysis was used to measure the strength and direction of relationships between perceived organizational justice dimensions and performance appraisal satisfaction.

Results and Findings

This section presents an analysis of data that are obtained from the survey.

Descriptive Statistics

The mean and standard deviation of key variables indicate overall employee perceptions. Table 1 shows the outcomes of descriptive statistics.

Table 2: Descriptive statistics

Variables	Mean	S.D.	Alpha
Perceived Distributive Justice	4.41	0.79	0.93
Perceived Procedural Justice	4.20	0.89	0.94
Perceived Interactional Justice	4.18	0.81	0.95
Perceived Performance Appraisal Satisfaction	4.70	0.89	0.89
<i>Note: The high Cronbach's Alpha values (0.93 - 0.95) confirm that the study's measurement scales are reliable and valid for assessing justice perceptions.</i>			

The results show the mean value of perceived distributive justice is 4.41. It suggests that respondents generally perceive distributive justice (the fairness of outcomes or rewards) positively, leaning toward agreement that the distribution of rewards or resources is fair. The mean value of perceived procedural justice is 4.20. It indicates that respondents perceive procedural justice (the fairness of processes and decision-making procedures) slightly less favorably than distributive justice but still above the neutral point. The results suggest that the process is generally seen as fair, though not as strongly as the outcomes. The mean value of perceived interactional justice is 4.18. It

indicates that interactional justice (fairness in interpersonal treatment during processes) is also perceived positively but slightly lower than distributive and procedural justice. It suggests that respondents generally feel they are treated respectfully and with dignity. Finally, the mean value of perceived performance appraisal satisfaction is 4.70. It indicates a high level of satisfaction with performance appraisals. Respondents generally feel positive about the appraisal process, suggesting that the majority find the performance evaluation process to be fair and satisfactory.

Relationship between Perceived Organizational Justice and Performance Appraisal Satisfaction

Table 3 shows the correlations between all the variables included in the study. This analysis was used to find the relationship between organizational justice dimensions (distributive justice, procedural justice, and interactional justice) and performance appraisal satisfaction.

Table 3: Correlation Results

Variables	PDJ	PPJ	PIJ	PPAS
Perceived Distributive Justice (PDJ)	1			
Perceived Procedural Justice (PPJ)	0.321*	1		
Perceived Interactional Justice (PIJ)	0.590*	0.490*	1	
Perceived Performance Appraisal Satisfaction (PPAS)	0.841**	0.310**	0.730**	1

*Correlation is significant at * $p < 0.05$, ** $p < 0.01$ (2-tailed).*

The very strong positive correlation of 0.841 indicates that employees who perceive the distribution of rewards or outcomes as fair are highly likely to be satisfied with their performance appraisals. This relationship is statistically significant at the 0.01 level, meaning the results are highly reliable. This shows that fairness in outcomes is strongly related to overall satisfaction with performance appraisals. Moreover, a moderate positive correlation of 0.310 indicates that perceived fairness in the procedures used for performance appraisals is positively related to overall satisfaction with the performance appraisal process. Though the relationship is weaker than with distributive justice, it is still statistically significant. Finally, the strong positive correlation of 0.730 suggests that employees who feel they are treated fairly in terms of interpersonal treatment during the performance appraisal process are also likely to be highly satisfied with their appraisals. This relationship is statistically significant, reflecting that how employees are treated during the appraisal is strongly related to their satisfaction with the process overall. These all results support all the hypotheses (H_1 , H_2 , and H_3)

Discussion and Conclusion

Organizational justice is the function of fairness in the workplace (Shrestha, 2015, 2016, 2019). In particular, organizational justice pertains to the treatment of employees, how those decisions affect the workers' degree of satisfaction, and whether they have received fair treatment at work (Moorthy, 2011). Examining how employees perceive organizational justice—distributive, procedural, and interactional justice—in the context of the performance appraisal system and its impact on employee satisfaction is very important in today's context.

The results of this study show that distributive Justice is the most strongly correlated with Performance Appraisal Satisfaction, suggesting that employees who feel the rewards or outcomes are fair are more likely to be satisfied with their appraisals. Interactional justice also shows a strong relationship with Performance Appraisal Satisfaction, highlighting the importance of respectful and dignified treatment during the process. In fact, procedural justice has moderate positive correlations with both distributive justice and interactional justice, indicating that the perception of fairness in procedures influences both the fairness of outcomes and interpersonal treatment. Overall, distributive and interactional justice have the strongest connections with performance appraisal satisfaction. Previous studies have also led us to conclude that performance appraisal satisfaction and organizational justice in the system are significantly correlated (Kuvass, 2007; Suliman, 2007). Employees in financial institutions in Nepal are more focused on interaction both during and after the review process, according to the study's findings. Employees are eager to learn how they were assessed and what their supervisor thought of them during the performance review process (Parajuli & Shrestha, 2024). Generally speaking, employees would undoubtedly want to know how they were assessed and what their feedback was in order to understand the scope of their work and how their superiors saw them (Moorthy, 2011). Therefore, the perception of the appraisal system's impartiality also affects how effective it is. Employees should be positively impacted by the distributive, procedural, and interactional justice components in order for them to embrace the entire process and its outcomes without hesitation (Sabeen & Mehmood, 2008; Shrestha, 2016, 2019, Shrestha et al., 2024).

In conclusion, ensuring fairness in reward distribution—whether it be salary increments, promotions, or bonuses—could directly improve satisfaction with the appraisal process, enhancing employee motivation and engagement. In the same way, organizations should consider refining their appraisal procedures to ensure they are perceived as fair and transparent. For instance, clear communication of performance criteria, regular feedback, and consistency in the application of evaluation processes could increase procedural fairness. However, as distributive justice remains a stronger predictor of satisfaction, procedural fairness alone may not be enough to ensure high levels of satisfaction. Furthermore, managers and appraisers should be trained to provide constructive feedback with empathy and respect. Positive, supportive communication can improve how employees perceive the fairness of the interaction and, in turn, their satisfaction with the appraisal process.

Limitations

Some of the key limitations of this study include:

- The study appears to be cross-sectional, meaning that data was collected at a single point in time. As a result, it cannot establish causal relationships between the variables.
- The study likely relied on self-report questionnaires, which can lead to response biases.
- The sample used in this study may not be representative of the larger population.
- The study may not account for cultural or contextual factors that could influence how employees perceive fairness in performance appraisals. Different cultures and organizational

contexts may have varying norms, expectations, and practices regarding justice, which could affect employees' perceptions.

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