

Performance Appraisal, Job Satisfaction and Organizational Commitment in Nepalese Commercial Banks

Narayan Prasad Aryal¹, Janga Bahadur Hamal^{1*}, and Nirjana Bhatta¹

¹Saraswati Multiple Campus, Faculty of Management, Tribhuvan University

(*corresponding: janga.hamal@smc.tu.edu.np, ORCID: 0000-0003-3030-1640)

Article History

Received

12th March, 2022

Revised

18th May, 2022

Accepted

18th June, 2022

Abstract

The purpose of this paper is to examine the impact of performance appraisal and job satisfaction on employee organizational commitment in Nepalese commercial banks. The primary data has been used to assess the opinions of the respondents through structured questionnaires constituting Likert items. The survey is based on 172 respondents, which represents 78 percent response of the total efforts made to collect samples from 16 commercial banks of Nepal. Descriptive and causal research designs have been employed in this study. The Pearson correlation coefficient has been used to analyze the relationship whereas the multiple linear regression models have been used for examining the significance and impacts of performance appraisal and job satisfaction on employee organizational commitment in the commercial banks of Nepal. The result reveals that performance appraisal and job satisfaction are positively related to employee organizational commitment. The study, therefore, concludes that job satisfaction and performance appraisal are the important factors affecting employees' organizational commitment. As this study is confined to commercial banks only, future studies can consider other banking institutions, and among employees' profile and human resource management factors as well.

Keywords: commercial banks, job satisfaction, organizational commitment, performance appraisal

Introduction

Performance appraisal is a key term in human resource management function which is viewed as a subset of performance management. Rao (2005) argued that performance appraisal is a method of evaluating the working behavior of the employee. Additionally, procedural and interactional justice was found to have a positive relationship with appraisal, satisfaction and

motivation (Selvarajan & Cloninger, 2011). If employees feel that the decisions are fair, they would respond with commitment, higher satisfaction and would be more willing to involve in extra-role behavior (Colquitt et al., 2001). Similarly, Cook et al. (2004) argued that the evaluation performance will not be effective if it is perceived as unfair by those involved in the evaluation process. Since employees' perception of justice is important to the performance outcomes, management of the organizations was advised to have the ability to change the employees' perception of the performance evaluation (Tang et al., 1996). In the opinion of Armstrong (2009), "a performance appraisal is a tool for looking forward to what needs to be done by people in the organization in order to achieve the purpose of the job". An organization implements the performance appraisal system to allocate rewards for the employee, provide development advice as well as obtain their perspectives, and justice perceptions about their jobs, department, managers, and organization (Seldon et al., 2001).

Sendogdu et al. (2013) evidenced that there is a strong and statistically positive association between training, either in multiple functions or on job skills, and organizational commitment. Naqvi and Bashir (2015) revealed that there exists a significant and positive correlation between human resource practices and organizational commitment. Hassan and Mahmood (2016) found a positive relationship between HRM practices (training and development, performance appraisal and compensation) and organizational commitment. The overall results indicate that employees who are satisfied with HRM practices are committed to the organization. Compensation is considered a more important variable in fostering organizational commitment. Formal and informal training strategies adopted by organizations are helpful to develop committed and professional employees. Further, the study revealed performance appraisal as one of the important factors which has a positive impact on organizational commitment. Rizal et al. (2014) concluded that compensation cannot directly improve employee performance rather it increases motivation and strengthens the organizational commitment.

A performance appraisal system should be used as an employee development tool to identify areas of skill and ability deficiency to improve focus for training and development, because the possession of appropriate skills and abilities are the key elements in improving individual performance (Fisher et al., 1997). The role of human resources includes job design, human resource planning, performance appraisal, recruitment and selection, compensation and employee relations (Derven, 1990). Ahamad and Schroeder (2003) found that organizational commitment is an indicator that testifies whether the human resource management practices employed in an organization are able to foster psychological links between organizational and employee goals. This is an intangible outcome of a human resource management system and is important in retaining employees and exploiting their potential to the fullest extent over time. HR practices contribute to the organization's bottom-line areas such as recruitment, selection, training, development and performance appraisal, which should be consistent, integrated and strategically focused. Daoanis (2012) revealed that the performance appraisal system strongly affects the commitment of employees in both positive and negative ways.

Organizational commitment refers to an emotional attachment. Employee beliefs and values regarding their job and role in the organization measure their organizational commitment (Swales, 2002). It is defined as a willingness to participate and contribute to the goals of the organization. The level of employee understanding and their commitment level in operations will be higher with strong supervision from their current employers (Okpara, 2004). Organizational commitment can be interpreted as the employee's long-term relationship and intention to stay in the workplace along with an unshakable belief in the goals and objectives of his/her organization, followed by a devoted effort to reach these goals (Porter et al., 1974). These perceptions depend on the manager or supervisor's actions and behaviors toward the employee. If performance appraisals are perceived as unfair, therefore, the benefits can diminish rather than enhance employees' positive attitudes and performance (Thomas & Bretz, 1994). Specifically, the perceptions of procedural unfairness can adversely affect employees' organizational commitment, job satisfaction, trust in management, performance as well as their work-related stress, organizational citizenship behavior, theft, and inclination to litigate against their employer.

In context of Nepal, Pandey (2008) revealed a significant positive relationship among the components such as personal benefits, career benefits and job-related benefits of training and commitment in Nepalese banks. Likewise, Chapagain (2011) showed the positive relationship between employee's participation and job satisfaction in Nepalese commercial banks. Similarly, Pandey (2015) concluded that employee participation is positively correlated to employee job satisfaction, employee fairness perception and organizational commitment. In the same way, Mishra and Shrestha (2015) found that there is a positive significant influence of organizational commitment on their performance. The empirical evidences in the context of other countries and in Nepal show several factors influencing the organizational commitment. This study is mainly aimed at examining the impacts of performance appraisal and job satisfaction on organizational commitment in Nepalese commercial banking sector.

Literature Review

The goal approach theory states that the organizational performance is the ability of the organization to achieve its goals. Goal achievement is one of the essential criteria to identify the performance of an organization. Concerning the achievement or non-achievement of organizations' objectives and goals, frequent assessments carried out as Etzioni's (1960) beliefs. However, in Etzioni's (1960) suggestion, the resources that an organization needs to achieve its objectives and aspirations were not taken into consideration. Some other researchers, for instance, Chandler (1962) and Thompson (1967), nurtured an idea of organizational performance similar to that of Etzioni (1960). Cherrington (1989) defined organizational performance as a concept of success or effectiveness of an organization, and as an indication of the organizational manner that it is performing effectively to achieve its objectives effectively. Likewise, Didier (2002) believes that the performance consists of "achieving the goals that were given to you in a convergence of enterprise orientations." In his opinion, performance is not a mere finding of the outcome, but rather it is the result of a comparison between the outcome and the objective. Organizational performance reflects the ability of an organization to fulfill its shareholders' desires and survive

in the market (Griffin, 2003). Also, organizational performance is known as the outcome of the actions or activities, which members of organizations carried out to measure how well an organization has accomplished its objectives (Chung, R-G., & Lo, 2007; Ho, 2008). So, the researchers argue that the ultimate criterion of organizational performance is its growth and long-term survival. So, what these definitions had in common was the effectiveness or realization of the objective component of organizational performance.

Armstrong (2009) evidenced that staff performance appraisals establish individual training needs and enable organization to identify training needs analysis and planning. The impact of human resource management (HRM) practices can create comparative advantage for the organizational performance when organizational commitment matters (Jehad & Farzana, 2011). Ray and Ray (2011) investigated the factors like performance appraisal, participation in decision making, training and development, empowerment, compensation influencing human resource management (HR) practices have significant association with job satisfaction. In addition, performance appraisals, participation in decision making are found to have high positive impact on job satisfaction. It has also been found that other elements like training and development, empowerment, compensation have substantial impact on employees' job satisfaction.

Morrow (2011) revealed that the process in evaluating the performance of employees is one of the most important determinants of organizational justice. The findings also revealed that perception of performance appraisal system has a positive correlation with organizational commitment. In this regard, Arif et al., (2011) showed that perceived fairness of performance appraisal has influenced their commitment towards organization through the mediating factor of satisfaction. Iqbal et al. (2013) investigated the positive relationship job involvement with employee's commitment. The conclusions were based on motivation of employees as to involve the employees in their job and give them incentives as they become committed with their organization. Adham (2014) found a strong correlation of direct employee involvement with job satisfaction and organizational commitment. However, involvement through influencing decisions making was found to have a slightly stronger correlation with both satisfaction and commitment than involvement through giving employees autonomy over their work.

In the context of Nepal, Pandey (2008) concluded that there is a significant positive relationship of personal benefits, career benefits and job-related benefits of training and development with employee commitment. However, Adhikari and Gautam (2011) found that a low degree of commitment and compliance have a negative impact on employee performance in Nepalese commercial banks. Chapagai (2011) found that employee participation is an important dimension for improving organizational performance and enhancing job satisfaction. The study of Subedi (2013) found that quality of training and workplace support is positively related to employee effectiveness. According to Nepal (2016), training and development, working condition, and performance appraisal are the major factors affecting job satisfaction in Nepalese commercial banks. Dahal (2017) investigated a positive relationship of pay and remuneration,

ownership, job security, chain of command, employee performance, and training and development with employee satisfaction. The above discussion reveals no studies have been found with performance appraisal, job satisfaction as independent variables and employee organizational commitment as outcome variable in the commercial banks of Nepal. Therefore, this study examines the extent to which commercial bank employees in Nepal are committed due to performance appraisal, and employee job satisfaction.

Research Methodology

A quantitative research approach based on positivism philosophy has been employed in the study. The design for the study is descriptive and causal in nature as cross-sectional data has been collected from the population (Holme & Solvang, 1996). The respondents' opinions on performance appraisal and employee organizational commitment in Nepalese commercial banks are assessed using the primary source of data. The target population of the study is the commercial banks in Nepal. The official data shows 27 commercial bank (NRB, 2020) and under convenience sampling basis 16 commercial banks representing 59 percent of the population (Annex 1). Further, the population of the respondents consists of the personnel comprising from assistant to executive level employees. They were approached through human resource department and a self-administered structured questionnaire survey included 172 respondents. Out of the 220 questionnaires distributed during November and December 2020, 85 percent filled up questionnaires were collected. After sorting the 78 percent useable questionnaires were recorded as sample for the research. This sample is adequate (Green, 1991) because the minimum acceptable sample size of $50+8k$ to test the overall model and $104+k$ to test significance of individual predictors, where k is the number of predictors. The study has used descriptive statistics such as frequency table, maximum value, minimum value, mean, and standard deviation, Pearson correlation and regression for examining the effect of performance appraisal and job satisfaction on organizational commitment on Nepalese commercial banks. The model estimated in this study assumes that the employee organizational commitment depends on performance appraisal, and employee job satisfaction. Therefore, the model takes the following form:

$$ORC = \beta_0 + \beta_1 PFA + \beta_2 EJS + \varepsilon$$

Where,

ORC = Organizational commitment

PFA = Performance appraisal

EJS = Employee job satisfaction

β refers to coefficient and ε refers to error term

Organizational commitment

Commitment refers to a person's dedication to a job or an organization. It is reflected in the person's intention to persevere in a course of action (Meyer & Allen, 1991). Organizational commitment is an indicator that testifies whether the HRM practices employed in an organization are able to foster psychological links between organizational and employee goals. This is an

intangible outcome of an HRM system and is important in retaining employees and exploiting their potential to the fullest extent over time (Ahmad & Schroeder, 2003). Organizational commitment comprises three types, affective (the psychological feeling and attachment of an employee to stay in the workplace socially and organizationally), continuance (the cost-benefit evaluation of whether to stay or leave), and normative (the feeling of being obliged to stay in the organization because of moral factors) (Meyer & Allen, 1997).

Performance Appraisal

It is concerned with identifying, measuring, influencing and developing the job performance of employees in the organization. To sustain profitable growth, organizations should focus on long-term value creation for the employee (Kochar et al., 2010). Roberts (2002) asserted that accurate and reliable performance appraisals help organizations to support and reward their most capable employees. A good perception will create a positive working environment in the organization, while a negative perception will affect the company's performance (Ahmed et al., 2011). Procedural and interactional justice was found to have a positive relationship with appraisal satisfaction and motivation (Selvarajan & Cloninger, 2011). Based on it, this study develops the following hypothesis.

H₁: Performance appraisal is positively related to employee organizational commitment.

Employee Job satisfaction

Employee's job satisfaction and its assessment are equally important with a view to knowledge addition and practical applications in the field of managing human resources. Brown (2010) revealed that there was a direct relationship between performance appraisal, satisfaction and employee outcomes. Samad (2011) showed that there is a positive and significant relationship between job satisfaction and job performance. Agyare et al. (2016) revealed that employees' job satisfaction is positively related to fairness in the appraisal system, linking appraisals with promotion, clarity of roles and feedback about their performance. Chahal et al. (2013) revealed that the fair the performance appraisal of the banks, the higher would be the employee outcomes in terms of employee job satisfaction and organization commitment.

H₂: Employee job satisfaction has a positive impact on employee organizational commitment.

Results and Findings

The Table 1 depicts the respondents' characteristics under four panel. Panel A shows that 19 percent were working as assistant, 40 percent were officer, 33 percent were manager, and 9 percent of the respondents were working at executive level. Panel B indicates that 3 percent of the respondents were with qualification below bachelor level, 22 percent with bachelor, 62 percent with masters and 22 percent with qualification above master's level. Panel C shows the age distribution of the respondents and 9 percent of the respondents fall under age group of below 25 years, 44 percent fall under the age group of 26-30 years, 38 percent fall under the age group of 31-35 years and 9 percent fall under the age group of 36 and above. Panel D indicates that out of the total 172 respondents' majority (58 percent) of the respondents are male and remaining (42

percent) of the respondents are female. Figure 4.1 is the classification of the respondent's gender in terms of male and female.

Table 1
Profile of respondents

Panel A: Positional level			
Level	Respondents	Percent	Cumulative percent
Assistant	32	18.60	18.60
Officer	68	39.53	58.13
Manager	57	33.14	91.27
Executive	15	8.72	100.00
Total	172	100.00	
Panel B: Educational level			
Qualification	Respondents	Percent	Cumulative percent
Below Bachelors	5	2.91	2.91
Bachelors	38	22.09	25.00
Masters	107	62.21	87.21
Above Masters	22	12.79	100.00
Total	172	100.00	
Panel C: Age distribution			
Age	Respondents	Percent	Cumulative percent
25 and below	15	8.70	8.70
26-30	75	43.60	52.30
31-35	66	38.40	90.70
36 and above	16	9.30	100.00
Total	172	100.00	
Panel D: Gender			
Gender	Respondents	Percent	Cumulative percent
Male	99	57.60	57.60
Female	73	42.40	100.00
Total	172	100.00	

Source: Field survey, 2020

Table 2 exhibits descriptive statistics for performance appraisal, employee job satisfaction and organizational commitment in Nepalese commercial banks. All the variables have positive composite mean score. The composite mean score shows that the level of performance appraisal, employee job satisfaction and organizational commitment is above average. It also shows that the employees give high importance to job satisfaction. The table exhibits the maximum and minimum mean score as well as standard deviation indicating the variation of employees' priority on each factors affecting the commitment level.

Table 2
Descriptive statistics

Variables	N	Minimum mean score	Maximum mean score	Composite mean score	Std. Deviation (%)
PFA	172	2.29	4.71	3.65	57.98
EJS	172	2.13	4.5	3.68	58.00
ORC	172	3	4.63	3.65	45.58

Source: Field survey, 2020

Table 3 shows the reliability of the scale items of variables. Cronbach's Alpha coefficients between 0.6 to 0.7 indicates an acceptable level of reliability, and 0.8 or greater a very good level (Hulin, Netemeyer, & Cudeck, 2001). The value of Cronbach's Alpha coefficients lies in between 0.671 to 0.823 in the study.

Table 3
Reliability table

Code	Variable	Cronbach's Alpha
PFA	Performance appraisal	0.823
EJS	Employee job satisfaction	0.673
ORC	Organizational commitment	0.671

Table 4
Pearson correlation matrix

This table reveals Pearson correlation coefficients between dependent and independent variables. Performance appraisal (PFA), and employee job satisfaction (EJS) are independent variables and organizational commitment (ORC) is a dependent variable.

	Organizational commitment	Performance appraisal	Employee job satisfaction
Organizational commitment	1		
Performance appraisal	.533**	1	
Employee job satisfaction	.743**	.671**	1

** . Correlation is significant at the 0.01 level (1-tailed).

Table 4 shows that there is a positive relationship between performance appraisal and employee organizational commitment. It indicates that the better the appraisal system, the higher would be the employee organizational commitment. Similarly, the result shows that job satisfaction is positively related to employee organizational commitment. It indicates that the higher the level of job satisfaction, the higher would be the employee organizational commitment.

Table 5

Estimated regression results of performance appraisal and employee job satisfaction on employee organizational commitment

The results are based on 172 observations by using the linear regression model. The model is $ORC = \beta_0 + \beta_1 PFA + \beta_2 EJS + \epsilon$ Where, Performance appraisal (PFA), and employee job satisfaction (EJS) are independent variables and organizational commitment (ORC) is a dependent variable. Values in the parenthesis are t-values.

Model	Intercept	Regression coefficients of		Adj.R ²	SEE	F- value
		PFA	EJS			
1	2.120 (11.245)**	0.533 (8.211)**		0.280	0.387	67.423
2	1.502 (9.996)**		0.743 (14.455)**	0.549	0.306	208.935
3	1.444 (8.828)**	0.063 (0.902)	0.701 (10.101)**	0.548	0.306	104.760

*Note: The asterisk signs (**) and (*) indicate that the results are significant at 1 percent and 5 percent levels respectively.*

The study has tested the normality and multicollinearity to fulfill the assumption of the ordinary least square model before running the regression. Table 5 depicts the regression results after ORC on PFA and EJS. In model 1, the independent variable PFA has positive impact with beta 0.533 and significant at 99 percent confidence level with 28 percent explanatory power. In model 2, the explanatory variable EJS has solo explanatory power of 54.9 percent with positive beta value of 0.743. In model 3, the regression result of multiple regression shows the combined effect of PFA and EJC. The result indicates that EJS has positive and significant impact on ORC at 1 percent significance level. The regression coefficient of EJS with 0.701 indicates that employee job satisfaction leads to 0.701 unit on organizational commitment. The F-value 104.76 of model 3 is significant at 99 percent level of confidence which shows that model is fit. Likewise, adjusted R-square of 0.548 shows that 54.80 percent of organizational commitment can be explained by the performance appraisal and employee job satisfaction. The models in the study are statistically significant and fit.

Discussion and Conclusion

The study employed Pearson correlation and ordinary least square regression model to analyze the relationship and impacts of performance appraisal and employee job satisfaction on organizational commitment in Nepalese commercial banks. The study used the cross-sectional data through primary data survey to assess the opinions of 172 respondents from 16 commercial banks operated in Nepal. The study finds positive and significant impact of performance appraisal on organizational commitment. The study finding is similar with the (Nasurdin et al., 2008; Morrow, 2011; Arif et al., 2011; Chahal et al, 2013; Naqvi & Bashir, 2015; and Hassan &

Mahmood, 2016). The study also finds positive and significant impact of employee job satisfaction on organizational commitment. The study finding is similar with the (Samad, 2011; Chahal et al, 2013; Naqvi & Bashir, 2015; Pandey, 2015; Hassan & Mahmood, 2016; Agyare et al, 2016)

The study concludes that the better the appraisal system, the higher would be the employee organizational commitment as well as higher the level of job satisfaction, the higher would be the employee organizational commitment. Moreover, this study also concludes that job satisfaction and performance appraisal system are the major factors affecting employee organizational commitment in Nepalese commercial banks.

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Appendix 1

Number of commercial banks selected for the study along with the study period and number of respondents

S. N	Name of the banks	No. of respondents
1	Nepal Bank Limited	7
2	Agricultural Development Bank	5
3	Rastriya Banijya Bank Limited	6
4	Everest Bank Limited	16
5	Himalayan Bank Limited	21
6	Nabil Bank Limited	15
7	Bank of Kathmandu Limited	8
8	Prime Commercial Bank Limited	7
9	Nepal SBI Bank Limited	9
10	Prabhu Bank Limited	11
11	NMB Bank Limited	16
12	Global IME Bank Limited	10
13	Nepal Investment Bank Limited	18
14	Siddhartha Bank Limited	8
15	Citizen Bank Limited	8
16	Sunrise Bank Limited	7
Total		172