FACTORS AFFECTING PERFORMANCE APPRAISAL EFFECTIVENES

SITI AISYAH ABD HAMID

This project is submitted in partial fulfilment of the requirements for a Bachelor of Science with Honours Human Resource Development

Faculty of Cognitive Sciences and Human Development
UNIVERSITI MALAYSIA SARAWAK
2011
FAKTOR-FAKTOR YANG MEMPENGARUHI KEBERKESANAN PENILAIAN PRESTASI

SITI AISYAH ABD HAMID

Projek ini merupakan salah satu keperluan untuk Ijazah Sarjana Muda Sains dengan Kepujian Pembangunan Sumber Manusia

Fakulti Sains Kognitif dan Pembangunan Manusia
UNIVERSITI MALAYSIA SARAWAK
2011
I have worked with numbers of people whose contribution in assorted ways to the research and making this final year project special. In the first place, I would like to convey my gratitude to my supervisor, Mr Abang Ekhsan Abang Othman for his supervision, advice and guidance from the very stage of this research as well as giving me extraordinary experience throughout the work. In fact, he also provide me with unflinching encouragement and support in various way. I am indebted into him more than he knows.

Special thanks to CIMB Aviva Assurance and Maybank Berhad for allowing me to conduct my research in their organization. The warm hospitality from the organization give me experience dealing with corporate entity. As a matter of fact, the organization vision and practices inspires me. Furthermore, I would like to thank the organization for giving cooperation to answer my questionnaire. I know respondents were busy but still they spent time to answer my question. Therefore, it a pleasure to get such cooperation with them.

Hence, I gratefully would like to acknowledge my family, Abd Hamid, Salkiah and Khairul Nizar for giving me full moral support through out the research and my study years. Without them I would not be able to finish my final year project sucessfully.

Finally, it is a pleasure to pay tribute to my friends whose very helpful along the research preparation and printings. Without their moral support, I would not be able to be in this stage.
TABLE OF CONTENTS

Acknowledgements iii
Table of Contents iv
List of Tables v
List of Figures vi
Abstract vii
Abstrak

CHAPTER 1-INTRODUCTION

1.0 Introduction 1
1.1 Background of the Study 2
  1.1.1 Banking Industry 4
  1.1.2 Organization Background 4
1.2 Statement of Problems 5
1.3 Objectives of The Study 8
  1.3.1 General Objective 8
  1.3.2 Specific Objectives 8
1.4 Research Hypothesizes 9
1.5 Conceptual Framework 9
1.6 Research Schedule 10
1.7 Significance of The Study 11
  1.7.1 Individual 11
  1.7.2 Researchers 11
  1.7.3 Organization 12
1.8 Limitations and scope 12
1.9 Definition of Terms 13
  1.9.1 Raters 13
  1.9.2 Appraisal Effectiveness 14
  1.9.3 Appraisal System 14
  1.9.4 Reward Rating Linkage 15
1.10 Summary 16

CHAPTER 2- LITERATURE REVIEW

2.0 Introduction 17
2.1 Contexts of Study 18
  2.1.1 Historical Context 18
  2.1.2 Malaysian Context 20
2.2 Theory and Model 22
  2.2.1 Performance Appraisal Model 22
LIST OF TABLES

**Table 1**  
Research Schedule 6

**Table 2**  
Data Screening 54

**Table 3**  
Reliability Cronbach Alpha 55

**Table 4**  
Validity Kaiser Meyer Olkin 56

**Table 5**  
Data Screening for actual study 59

**Table 6**  
Respondents’ gender frequencies 60

**Table 7**  
Respondents’ age frequencies 60

**Table 8**  
Respondents’ race frequencies 61

**Table 9**  
Respondents’ position frequencies 62

**Table 10**  
Respondents’ working years frequencies 63

**Table 11**  
Correlation table of raters and appraisal effectiveness 64

**Table 12**  
Correlation Table of appraisal system and appraisal effectiveness 66

**Table 13**  
Correlation table of reward rating linkage and appraisal effectiveness 67
Table 14
Model summary of multiple regressions 69

Table 15
Coefficient for multiple regression 70

Table 16
Summary of findings 71

LIST OF FIGURES

Figure 1
Conceptual Framework 9

Figure 2
Model of Performance Appraisal 22

Figure 3
Criteria of Performance Appraisal Effectiveness 34

Figure 4
Research Process 41

Figure 5
Pearson Product Moment Coefficient 52
ABSTRAK

FAKTOR-FAKTOR YANG MEMPENGARUHI KEBERKESANAN PENILAIAN PRESTASI
Siti Aisyah Abd Hamid

ABSTRACT

FACTORS AFFECTING PERFORMANCE APPRAISAL EFFECTIVENESS
Siti Aisyah Abd Hamid

This study aims to identify correlation between independent variables with dependent variables. Independent variables used in this study are raters, appraisal system and reward rating linkage. According to empirical studies, not much research were done in Malaysian context, especially in Banking industry. In fact, performance appraisal often facing a pitfalls because of inaccuracy in its rating. Evidence showed that, the existance of bias between raters had cause organization performance appraisal to fail. Furthermore, incompatibility between individuals and system used caused dissatisfaction and vague idea on performance appraisal. In other respects, performance appraisal was viewed as a dishonest ritual. At the end of the day, employees’ moral were decreasing because of the practice. Meanwhile, empirical study showed that, in the absence of reward linked to rating of performance, raters and ratee tend to have lower acceptance towards performance appraisal. Reward was then believed to be the tools to retain and attract employees’. This study was using quantitative methodology and conducted in Maybank Berhad. Sample size was determine using Cochran (1977). Cluster sampling was used to choose the target group in the organization. Cluster sampling is easier and cost savvy. Before the actual study was conducted, pilot study was done to test the validity and reliability of instrument used. For the actual study, the quantitative data was collected by distributing questionnaire to the organization. The finding shows that, strong positive correlation exist between appraisal system and performance appraisal effectiveness. Aside from appraisal system, reward rating linkage also had a strong positive correlation with performance effectiveness. This shows that, there is a greater impact between appraisal system and reward rating linkage with performance appraisal effectiveness. Meanwhile, raters only had weak positive corelation with performance appraisal effectiveness. Pearson correlation test was used to test the hypothesizes. In multiple regression test, dominant factor was identified. Appraisal system possessed the greater R value than reward rating linkage. Thus, appraisal system was identified as the dominant factor in this study. This study helped to unearth factors that have greater impact on performance appraisal effectiveness. The findings were useful for practitioner and organization to make sure the development of appraisal system must be clear, concise and compatible with individual and organizational goal.
CHAPTER 1
INTRODUCTION

1.0 Introduction

Generally, this chapter covered few topics related to the research. Firstly, for topic 1.1 is the background of the study. This topic gave underlying ideas on performance appraisal. Vindication on statement of the problem that unearthed the reality of performance appraisal and empirical evidences, which led to the study, will be presented on topic 1.2. Meanwhile, topic 1.3 revealed objectives of the study, which addressed relevant purposes and the aims of the study. It divided into two major parts; which were general objective and specific objective. In the following topic, research hypothesizes were formed and presented in topic 1.4. Hypothesizes were established based on the statement of problems and empirical researches. Hence, conceptual framework of the study will be presented in topic 1.5; it consisted of factors that affecting effectiveness of performance appraisal. Furthermore, in topic 1.6, the research schedule was outlined and topic 1.7 covered significance of the study. The significance of the study covered three contexts and followed by topic1.8, which annotated the limitations and scope of the study. In this study there were
certain constraints, which limit the operation, process or the result of the research. Detailed discussions on types of limitations were explained in the topic unfathomably. Finally in topic 1.9, the definitions of term were constructed. It consisted of conceptual and operational definitions.

1.1 Background of Study

Performance appraisal is reviewing and appraising performance to ensure that the employees are able to achieve objectives. It can be done by providing employee with diagnostic feedback, positive and negative about their job performance. (Rajkumar, 2002). Aside from that, performance appraisal also used to determine the effectiveness of employee in performing their work (Ivancevich, 2010). It often involves judgments and opinion of subordinates, peers, supervisors, other managers and even the employees themselves (Jackson & Schuler & Steve, 2009). In some context, performance appraisal is one of the most emotionally charged procedures in management. People have a strong feeling about being evaluated. Employees can feel vulnerable; if the appraisal is not conducted appropriately it will lead to the failures of managing performance (Margulies & Swan, 1991). Moreover, failures also related strongly to ineffectiveness of the performance appraisal in the organization.

In other respects, performance appraisal is believed to be a quantitative and qualitative measurement of work performance (Leap & Crino, 1993 as cited in Ab. Aziz Yusof, 2005). Therefore, both of the aspects are crucial need to be taken into account. The objective and subjective criteria must be given an attention carefully. That means, performance appraisal must not cover the objectivity of employees work but it has to cover behavior and attitude as well. According to Latham and Wexley (1982), the results of appraisal will influence employee status, especially relating career advancement and rewards. Furthermore, Ellis et. al (1967 as cited in Ab. Aziz Yusof, 2005), added that, organization policy and appraisal system has to be paralleled with individual in the organization.
Another term that should not be ignored is performance management. It is a process whereby executives, managers and supervisor works together to align employee performance with the organization’s goal (Ivancevich, 2010). Moreover, it also contributes to management effectiveness in the organization as a whole. As a matter of fact, it shared about understanding what is to be achieved and as an approach to assist and develop employees. Performance appraisal is the crucial part in organization performance management process. According to Guinn (1992), performance appraisal and performance management is just the matter of time. Performance management is much more towards long term process (Baird & Beatty & Schneier & Shaw, 1995). However, appraisal is essential for the effective management and evaluation of staff. Appraisal help to develop individual, improve organization performance and increase effectiveness in business planning.

There are many problems with performance appraisal effectiveness. According to Hunt (2001), an appraisal should incorporate a number of elements for it to be effective. According to Margulies and Swan (1991), in early 1950 most of the large organization in the country had performance appraisal programs. However it is not very sophisticated because little personnel decisions had to do with appraisal. This thus shows that a reliable appraisal system is needed because, at the end of the appraisal the best employee might be fired and the low performer might be retained. This source of problem can be caused by raters’ inaccuracy. It is possible that this ineffective performance appraisal can lead to organization poor performance.

There are few components in the appraisal that can slightly create major issue such as, performance appraisal objective, performance appraisal systems, raters and reward rating-linkage. These factors are more likely to be known as proximal factor in performance appraisal field. However, there are some other factors exist which can influence the effectiveness of the appraisal such as organizational climate, structures and culture. According to Cleveland & Murphy (1995), such factors affect the effectiveness more indirectly rather than the proximal factors.
1.1.1 Banking Industry

When it comes to banking industry, the best way to elaborate the industry is by looking at climate on which the bank operates. In this context, the climates that organization has in banking industry affect performance appraisal practices. Generally, annual performance appraisal is conducted in most of the banks. However, in some cases, appraisal is done twice a year. As for some banks, it is a purpose for developing its human resources (typepad.com, 2009). Performance appraisal is crucially set up for certain purpose, where in most banks appraisal is used for administration purposes. It is for pay rise and promotions. In large banks generally, build up in very detail system of appraisal however it is very not common. A well design system in banking industry provides feedback to employees as soon as they evaluated. Subordinate in the other hand, can challenge the results if they do not agree. According to Field, Findley and Giles (1997), it is called system openness. Usually in banking industry formal system appraisal is used as they design forms to appraise employee for particular quality or competencies. This evaluation may include creativity, teamwork, skills and ethics in business.

1.1.2 Organization Background

Maybank Group is the leading financial services provider in Malaysia. Their mission is to fulfill the needs of their stakeholders such as, consumers, investors, entrepreneurs, non-profit organizations and corporations. Maybank Berhad currently has expanded internationally and has the largest network among Malaysian banks. They have over 1,750 branches and offices in 14 countries. Furthermore, their human resources exceed 40,000 and serving over 18 million customers. Maybank possess distinction in market because they are holding the largest asset of more than USD100 billion. In fact, their market capitalization exceeds USD18.6 billion. Maybank Berhad focuses on capturing growth opportunities in high growing environment while taking a proactive and conservative approach to capital management. The approach is done in a way of continuing to establish the presence in high growth markets. This thus
makes Maybank hold a strong track record of financial strengths and high credit ratings. As a matter of fact, it allows Maybank to keep momentum and continue with robust performance even in pressure environment (Maybank.com, n.d).

Subsequently, Maybank strengthen their core business and franchise to gain competitive advantage by achieving synergies across diverse group. Aside from that, Maybank intend to achieve leadership across key and profitable segments locally. Meanwhile, International values of Maybank are interpreted from new investments and continuous organic expansion pursue by delivering innovation and superior customer value. On the side of careers, Maybank is the top recruiter of talent and view leadership pool and talent pipeline as key to reach company aspirations. Maybank constantly seek to enhance performance management and achieve cost optimization by focusing on effective IT operations and enhancing employee productivity (Maybank.com, n.d).

1.2 Statement of Problems

Retrospectively, effectiveness of performance appraisal had so far been studied in different context. However, identification of factors that could harm the effectiveness of performance appraisal in Malaysian organization had been given little attention. Until now, studies on Malaysian context was done by several researchers only like, Daniel, Boje, McClaine, Stage and Vance (1992), Rusli and Nur Azman (2004), Ab. Aziz Yusof (2005), Normala (2006) and Vignaswaran (2008). Therefore, little information can be obtained regarding performance appraisal in Malaysian context, especially in banking industry. Decades ago performance appraisal was a process that was conducted in for a limited utility. It mainly focused on largely confined to hourly wage group of employees to address a distinction between good and bad performers. Today, appraisal is used for decision about development and legal compliance (Ivancevich, 2010). In fact, it also works as motivation stressor and tools to improve bad performers. However, it is still questionable whether performance appraisal works effectively throughout the purpose and aim. Therefore,
certification on appraisal objectives is crucial because it help on verifying the effectiveness of performance appraisal in one organization. Effective performance appraisal cannot just be a year exercise. Some suggest that only a small percentage of appraisals are actually effective and accomplish the goals for which they were intended (findarticles.com, 1992)

According to a survey done by Anderson Company, less than 5 percent managers and employees are satisfied with the way in which performance appraisal conducted. One of them complained that ratings were not consistent among raters (Haasbroek & Nel & Schultz & Sono & Van Dyk & Werner, 2004). Raters were person who responsible to evaluate the ratees, however, in previous research raters accountability had creates doubts in appraising performance. Since most of the studies were conducted in western country, therefore, it was crucial to know whether really raters had been a factor contributes to ineffectiveness of appraisal in Malaysian organization. As far as performance appraisal was concerned, raters play a major role to fulfill the appraisal process. However, it is critical to make sure the person in charge knew the actual performance that they wanted to measure. Furthermore, readiness, honesty and skills were needed to ensure appraisals were done correctly and effectively.

Based on study done by Chen-Ming and Dar-Hsin (2007), organization should consider many factors when designing a performance appraisal system. This is simply because it will be affected by various contexts in which the organization operates. Subsequently, the acceptance towards the system in the appraisal process also affecting the performance appraisal effectiveness in a sense of if employees do not accept the appraisal system as legitimate. They are likely to see the rating as fair. In fact it will increase resentment among the employees (Budhwar & DeNisi & Varma, 2007). Precedently, almost every research paper included appraisal system as the leading factor to effectiveness of performance appraisal. However, correlation of appraisal system with another existing factor such as raters, appraisal objectives and reward rating linkage were still not covered. Amat Taap Mashor (2002) claimed that
absenteeism rate was significantly associated with quality of performance appraisal. Corresponding to the matter, feedback, fairness and goal setting also influence the absenteeism rate in organization. It was as a matter of fact related to employee perception. If the elements of performance appraisal were not consistent with personal goal, absenteeism was likely to happen. Aside from that, ineffective performance appraisal might lead to misconduct, such as wrongful dismissal.

When it comes to the process of designing, implementing and evaluating performance, organization must invest resources necessary to appraisal. In certain manner, reward had been a thing that triggers and encourage performance. Hence, when organization invested some resources to link the appraisal with reward, its effectiveness might be affected as well. Unfortunately, reward might be perceived differently among the employees and it had gotten minor attention in some research. Hence a study for this matter is needed to identify factors that affecting performance appraisal effectiveness in Malaysian organization. Malaysian company is now developing along with globalization. So, any factors that align with it should not be overlooked especially when appraisal is a crucial practice today.

1.3 Objectives of the Study

1.3.1 General Objective

This study is conducted to identify existing factors that will affect the effectiveness of performance appraisal. This will eventually identify major factor that contribute to performance appraisal failure in the organization.
1.3.2 Specific Objective

The specific objectives are as follows:

i. To determine raters factor toward effectiveness of performance appraisal

ii. To determine whether effectiveness of performance appraisal is affected by appraisal system.

iii. To determine correlation between reward rating linkage with effectiveness of performance appraisal

iv. To determine correlation between raters, appraisal system and reward rating linkage.

v. To determine dominant factors between raters, appraisal system and reward rating linkage.

1.4 Research Hypothesis

\( H_1 \) : There is a correlation between the raters and effectiveness of performance appraisal.

\( H_2 \) : There is a correlation between appraisal system and effectiveness of performance appraisal.

\( H_3 \) : There is a correlation between reward rating linkage and effectiveness of performance appraisal.

\( H_4 \) : There is a correlation between multiple independent variables with the dependent variable performance appraisal effectiveness.
1.5 Conceptual Framework

The conceptual framework shown in figure 1 of this study is adapted from Kleiner and Rankin (1993), where three factors mentioned affecting performance appraisal effectiveness were raters, appraisal systems and reward rating linkage. Appraisal effectiveness on the other hand was adapted from Hunt (2001).
1.6 Research Schedule

<table>
<thead>
<tr>
<th>List of Final Year Project's Activities</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ju</td>
</tr>
<tr>
<td>Library Research</td>
<td></td>
</tr>
<tr>
<td>Final Year Project 1 Writing</td>
<td></td>
</tr>
<tr>
<td>Final Year Project 1</td>
<td></td>
</tr>
<tr>
<td>Submission</td>
<td></td>
</tr>
<tr>
<td>Data Collection</td>
<td></td>
</tr>
<tr>
<td>Data Analysis</td>
<td></td>
</tr>
<tr>
<td>Final Year Project 2 Writing</td>
<td></td>
</tr>
<tr>
<td>Final Year Project 2</td>
<td></td>
</tr>
<tr>
<td>Submission</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Research Schedule

Based on the figure 2, the duration of the research is 10 month. Upon completion of the research data collection took two month to be completed. Finally, the research is submitted in April.
1.7 Significance of Study

1.7.1 Individual

Performance appraisal concept is vital to Human Resource field. Knowing that this function of human resource can easily be affected by its surrounding factors this study will give maximum understanding on the characteristic of an effective performance appraisal. The literature reviews increase the concern of individual to expand knowledge on performance appraisal function and processes. Furthermore, individual can have self awareness on performance appraisal practices. The knowledge will guide on managing performance as well. Apart from that, this study provides overview on specific factors that mostly affecting performance appraisal effectiveness. In fact, empirical evidence used in this study will enhance the perception of performance appraisal, especially positive influences. With that, individual can avoid themselves from viewing appraisal as a dishonest ritual.

1.7.2 Researchers

The study of factors affecting performance appraisal effectiveness will unearth the components of performance appraisal. In fact, it is significance for researchers to gain extensive knowledge and data on factors that caused performance appraisal pitfalls. Some of the case studies and researches done under this field were mostly from Western country. Therefore, this research can be a starting point for another researcher to conduct research under this field of study in Malaysian context but in different industry. Besides that, researchers can also go into more unfathomable part of the study by investigating the micro components in each variable which can lead to ineffectiveness of performance appraisal especially in Malaysia, where little research were done for performance appraisal. Furthermore, on the site of methodology, this research will eventually attract researcher to do their
research in mix methodology. Since time is emerging and methods also emerge. This will provide maturity in upcoming research. One method can overcome weaknesses of another method.

1.7.3 Organization

As far as performance appraisal is concerned it is a component of performance management. As the matter of fact it relates with another relatives human resource function exist in the organization. The ineffective performance appraisal will eventually affect the operation of other human resources practices thus leads to impediments of the organizations. Despite of its relational link to the human resource practices, performance appraisal should be a positive experience and foster the feeling of good opportunities. Therefore, this study will reveal the factors that affect the effectiveness of appraisal so that there will be no resentment and fear of appraisal in organization. Furthermore, organization has the idea how to manage employees’ performances.

1.8 Limitation and Scope

This study covers only private organization where the respondents are first line staff and supervisors from the organization. This is because, respondent in the department are closely related to existence of performance appraisal and process of the appraisal. This research requires internal cooperation from organization. The limitation of this research is mostly on time basis. Although this study using qualitative and quantitative methods which enable to collect more data the qualitative would have benefited more in the research. In depth interviews with front line staff may have produced further clarifying data. This is a constraint that I faced when conducting interview. The differing management attitude may produce difference result correspond to the staff. There is no enough time to be detail on the organization and the respondent have another responsibility for the organization. However, during
the interview some of the respondents are not happy of them being tape recorded.

Followed by, company policies that limit this research. Stringent company policies make it difficult to collect data. Most of the results and procedure are private and strictly confidential to outsiders. Therefore, not much information can be obtained. In the other hand on the ground of honesty of the respondent had been one of the barriers in this study. Most of the respondent did not answer the questionnaire with honesty. They want to get rid of the questions and answer them without full accuracy. Some perceived the questionnaire as a nuisance hence they are not serious in answering all the items.

Besides that, financial resource also troubles the research as quite large sum of money must be invested to conduct the research. Transportation cost to go and collect data and also questionnaire’s printing cost. Another alternative to distribute questionnaire might help to reduce the cost. Those are the limitations when conducting the research. Revamping the strategy might help the research to run smoothly and data will be obtainable.

1.9 Definition of Terms

1.9.1 Raters

- Conceptual Definition

Individual that carry out the appraisal, this role can be fulfill by supervisor, line managers or specialist. (Hunt, 2001)

- Operational Definition

Person who responsible to rate the ratees during the performance appraisal. Raters should be able to avoid bias, understand the
purpose of the appraisal and well trained in order to give effective results in performance appraisal.

1.9.2 Appraisal Effectiveness

• Conceptual Definition

Need and wishes of individual and organization for the appraisal is fulfilled. Considering individual viewpoints and organization views (Hunt, 2001).

• Operational Definition

Appraisal effectiveness in operational definition is a clear explanation on appraisal system and purpose of conducting the appraisal in the company gives a positive affectivity on individual and organization. Besides it is also refers to the ability of eliminating bias and ability of employee to achieved personal goal. Moreover, appraisal effectiveness is achieved when organization objectives align with individual objectives.

1.9.3 Appraisal System

• Conceptual Definition

Performance appraisal is a management tool which is helpful in motivating and effectively utilizing human resources. This system divided into 2 types, which are formal system and informal systems. Performance appraisal should be correlated with organization mission, philosophies and value system. It also needs to cover