

# **IMPACT OF PERFORMANCE APPRAISAL SYSTEM ON EMPLOYEE SATISFACTION AT KARACHI PORT TRUST**

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## **ABSTRACT**

*Performance appraisal is considered as an essential tool to motivate and develop employees. The purpose of this research was to find out the impact of Performance Appraisal System (PAS) on Employee satisfaction at Karachi Port Trust (KPT). The research, being explanatory in nature, involved quantitative data collected through a questionnaire, by adopting the deductive approach. The data were collected from a sample of 50 managerial level employees belonging to different departments of KPT. To analyze the data, Pearson's Correlation and Regression tests were applied. The findings of the study revealed that culture of participative goal setting does not exist at KPT. Managers do not consult subordinates while making important decisions. However, periodic review meetings during the appraisal cycle are a source of satisfaction among the employees as they are provided feedback for corrective measures.*

**Keywords:** *Performance Appraisal System (PAS), Employee Satisfaction, Participative goal setting, Periodic Review, Final Evaluation.*

## **INTRODUCTION**

Competing through human resource is on the priority list of most of the leading organizations whether belonging to a public or private sector organization. Competent employees are an important asset to any industry as they are the main catalyst in achieving organizational goals. Although broad parameters of success are well known to almost all organizations, there is a strong need for exploring most effective measures relevant to the specific industry. By implementing interventions appropriate to the industry, organizations can achieve a sustained competitive position in the market. There are a number of ways and means of keeping the workforce satisfied, committed and highly productive. In this context, both intrinsic and extrinsic rewards are important for ensuring durable job satisfaction

of employees (Moynihan & Pandey, 2007). Performance appraisal is considered an essential tool to motivate and develop employees. Organizations which have realized the importance of performance appraisal and implemented it carefully, have achieved an edge over their competitors (Armstrong & Baron, 2004). According to Armstrong (2010a), performance appraisal should be undertaken as a yearlong process with an aim to identify and fill employees' performance gaps and should not be considered merely a traditional one-time activity. If it happens only towards the end of the year, it is just like a Post Mortem activity which leaves little room to correct errors that have already been done.

KPT is the main and an important port of Pakistan which has been contributing towards national economy since its inception but during the past few decades, it has not grown enough to match with other ports of the region. Surplus workforce and low productivity are some of the common causes of its stagnancy, as is the case of other public sector institutions of the country. Being an important asset of the country, there is a dire need to pay attention to this organization and identify possible reasons for being stagnant and complacent. Besides, in the context of employee performance, there is a need to determine the extent to which existing performance appraisal system is effective enough to serve its purpose. So, the study has been undertaken to determine the same.

### **PROBLEM STATEMENT**

Most of the Pakistani organizations are facing a consistent challenge of achievement appropriate level of employee satisfaction, commitment and ensuring their retention. Among various factors responsible for this challenge, poor implementation of performance appraisal system is of unique significance. KPT, being no exception, is also facing similar problems. Despite having a well-defined performance appraisal system in place, it is quite difficult for the organizations to keep the workforce suitably trained and motivated. Through this study, an effort was made to find out the extent to which employees are satisfied with existing PAS system and to what degree appraisal system is used to develop and motivate employees, at KPT.

### **RESEARCH QUESTIONS**

This Study attempts to find the answer of following questions related to KPT employees:

- Are employees satisfied with performance appraisal system?

- Do managers give an opportunity of participative goal setting to employees?
- Do managers arrange periodic review meetings of employees?
- Are employees satisfied with their final evaluation?

### **RESEARCH OBJECTIVES**

Following were the research objectives:

- To find out the overall impact of PAS on employee satisfaction.
- To determine the influence of participative goal setting on employee satisfaction.
- To understand the contribution of periodic review on employee satisfaction.
- To find out the impact of the final evaluation on employee satisfaction.

### **SIGNIFICANCE OF THE STUDY**

This study aims to evaluate the impact of Performance Appraisal System (PAS) on Employee satisfaction at Karachi Port Trust (KPT). The study will help managers to understand the importance of participative goal setting. It will highlight the importance of periodic review meetings and timely feedback. It will tell the worth of fair evaluation towards employee satisfaction. It will help to increase the satisfaction level of employees because employees are an asset of an organization and performance appraisal is a tool which measures the performance level so when the evaluation will be effective, it will automatically improve the motivation and satisfaction level of employees. The study will also help policy makers to correct the perception about public sector organizations, as in public sector organizations, performance appraisal is perceived as not so effective system. Thus the study findings will help them to devise policies to correct that perception.

### **LITERATURE REVIEW**

#### **Employee Satisfaction**

Almost all leading organizations desire to maintain a sustained competitive edge in the industry through their human resource. Long-term retention of good employees is the dream of every employer. Employee satisfaction is essential for commitment and enhanced performance. One of the main aspects of Human Resource Management is the measurement of employee satisfaction. Organizations have to ensure that employee satisfaction is their top priority because it is quite essential for the cumulative organizational outcome. Effective organizations must have a

responsibility to support the employee satisfaction (Bhatti & Qureshi, 2007). Employee satisfaction is given highest priority by the organizations because only satisfied employees can help the organization in achieving its goals. Many researchers have supported that employee satisfaction is a factor in employee motivation, employee goal achievement and positive employee morale in the workplace. Employees shall be much steadfast and useful when they are fulfilled, thus fulfilled workers stimulate customer faithfulness and convincing competence (June & Poon, 2004).

Brikend (2011) has focused on Job fulfillment and established that it is affected by the variables, for example, kind of job, pay, development chances, fair evaluation, job assessment meetings and work environment. According to Miller (2006) better relationships with peers, competitive salary & benefits, good job environment, opportunities for growth, talent improvements or other similar benefits are usually linked with enhanced employee satisfaction.

### **Performance Appraisal System – A Tool to Develop & Satisfy Employees**

It is very important for organizations to develop a performance appraisal system that is looked upon by the employees as transparent and a source of development and career progression. Employee satisfaction is an important outflow of performance appraisal system. Performance appraisal system is a tool which identifies and reveals the strengths and weaknesses of an employee and helps managers in developing their employees while providing suitable rewards (Sarkar, 2016). It is a process in which a manager appraises an employee about performance gaps and developmental needs. There are a number of studies which look at the impact of performance evaluation system on workers' career development and job satisfaction (Fletcher, 2001). Latham, Sulsky, and Macdonald (2007) emphasized that performance appraisal is a source of feedback and goal setting; having linked it with performance theory, a well-defined PAS helps to determine the following:

- The relevant performance dimensions.
- The performance standards or expectations.
- Situational constraints to be weighed when evaluating performance.
- The number of performance levels.
- The extent to which performance should be based on absolute or comparative standards.

Armstrong (2010b) mentioned that performance appraisal system is an

employee developmental tool that should result in improvement of needed potential of concerned people through requisite efforts both at the individual level and also with the help of managers. Briscoe and Claus (2008) have pointed out that an effective PAS always facilitates in setting realistic work goals, establish desired work standards, evaluate performance, provide timely feedback, identify developmental needs and distribute rewards on the basis of equity. Performance appraisal system is the process which is used to identify performance gaps, encourage employees to develop their skills, measure their competence, evaluate their performance, and reward them if they so deserve. As mentioned by Dessler and Varkkey (2004), an effective PAS is clearly linked with overall strategy and objectives of the organization.

According to Holpp (2012), performance appraisal is a process that is firmly connected to the firm's system while utilizing the worker's aptitudes, experience, and objectives in a way that gives a feeling of fulfillment and accomplishment for both the worker and supervisor. Performance appraisal is considered to be a tool to encourage employee performance (Haneman & Werner, 2005). According to Maund (2001), performance appraisal provides a clear understanding to the managers and employees about the desired outcomes and facilitates through effective communication. It helps to for understand the following:

- The job that should be done.
- The criteria by which achievement will be observed.
- The objectives of the entire appraisal exercise
- The appraisal feedback on the achievement of targets.

Khan (2007) mentioned that the central target of performance evaluation is to encourage administration in doing regulatory choices identifying with promotions, firings, layoffs, and boosts in salary. It helps the manager to evaluate the performance of his employees and significantly provides more specific reasons for decisions on promotion, salary raises, training & development needs and layoffs.

**Components of Performance Appraisal.** Based on literature review three main components of a performance appraisal system have been identified:

***Participative Goal Setting.*** Goal setting is an essential and initial part of performance appraisal system when managers define goals to the employees

and guide them towards the specific direction to achieve those goals. In the context of participative goal setting, Locke and Latham, (2002) described that in management practices participative goals have a prevalent effect on employee conduct and his performance. DuBrin (2012) stated that managers generally acknowledge objectives setting as a way to enhance and maintain execution. Holpp (2012) stated that “goals setting refers to the expected outcome statements that define what an organization is trying to accomplish”. Participative goal setting results in complete support of all involved and leads to better performance. Locke and Latham (2012) stated that specific goals help in achieving other alluring authoritative objectives, for example, decreasing non-appearance, lateness, and turnover.

***Periodic Reviews and Feedback.*** The purpose of periodic reviews is to assess the performance pace, identify if any anomaly is observed, discuss any problem faced by the employees, provide them positive feedback about performance standards as compared to the expectations and render all possible support to overcome anomalies. Roberts (2003) mentioned that in an effective performance appraisal system, regular assessment or review of performance is essential; he further suggested that for an appraisal system to be extremely effective, ongoing formal and informal feedback should be made an integral part. Periodic reviews encourage employees to complete the goals because when managers periodically assess employees’ performance, it helps them to correct or improve their weaknesses. Roberts (2003) explained that without timely feedback, employees are incapable of making amendments in job performance or obtaining positive reinforcement. He further described that for changing employee work behavior; performance feedback is quite useful, as it leads to job satisfaction and enhanced performance.

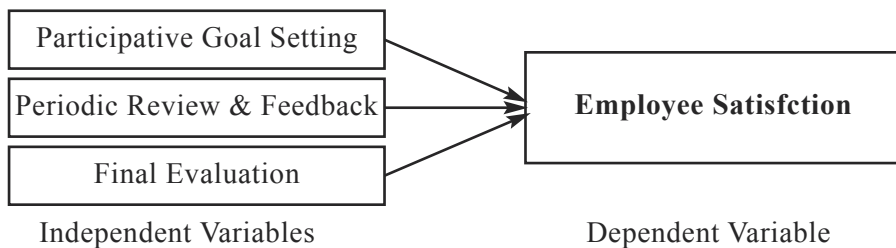
***Final Evaluation.*** The basic purpose of the final evaluation is to determine employee performance in terms of quantity, quality, and efficiency. By identifying performance gaps, managers take appropriate measures to fill the deficiencies. In this phase, which is also called the ‘rating phase’ and ‘reward phase’, written evaluation by the evaluator is endorsed that involves achievement of the employee during the evaluation cycle. On the basis of this appraisal outcome, employees who merit organizational rewards are suitably compensated for their achievements. Final evaluation provides a clear picture about employee’s strong and weak areas and training needs are also identified. Randi, Toler, and Sachs (1992) identified following benefits of productive performance appraisal:

- Employee knows about his/her strengths and weaknesses
- They agree upon new goals and objectives.
- In the evaluation process, the employee is an active participant.
- Supervisor and employees have a relationship of an adult-to-adult level.
- Employee reintroduces his/her interest in present and future job.
- Training needs are recognized.
- Manager feels more comfort in observing the performance of subordinates.
- Workers feel that the manager is really concerned about their desires and goals.

After final evaluation, appropriate coaching and rewards are provided to employees according to the performance.

### **THEORETICAL FRAMEWORK**

From the literature review, following variables have been identified and the theoretical framework has been developed:



### **RESEARCH HYPOTHESES**

Following three hypotheses were formulated after a comprehensive study of the literature review:

- H1.** Participative Goal setting has a positive impact on employee satisfaction.
- H2.** Periodic review & feedback have a positive impact of on employee satisfaction.
- H3.** There is a positive impact of final evaluation on employee satisfaction

### **RESEARCH METHODOLOGY**

The research is explanatory in nature and follows quantitative design. The research adopted a deductive approach whereby hypotheses were first formulated followed by preparation of a well-structured questionnaire. The data was collected through the structured questionnaire, by using a Likert scale, with the range of 1-5, taking 1 as lowest and 5 as the highest value.

The total number of managerial level employees working in different departments of KPT is 291 which was the target population for this research. A total of 50 managers were chosen as a sample size, including both male and female employees belonging to various departments of KPT. Primary data was collected through a questionnaire. The sampling technique adopted was snowball or non-probability convenience sampling method in which people from the target population were approached, ensuring convenience of respondents in terms of availability at a specific time, accessibility and geographic proximity (Dörnyei, 2007).

Adopting different statistical tools including Pearson Correlation and Regression analysis, the data was analyzed to test the hypotheses, by using Statistical Package for Social Sciences (SPSS).

### DATA ANALYSES & RESULTS

#### Test of Reliability

The reliability test predicts the extent to which constructs are is reliable. When Cronbach’s alpha reliability test’s value is greater than 0.7, the research instrument is said to be reliable but in the case of less than 0.7 value, the questionnaire is not reliable.

Table 1. Reliability Statistics

Cronbach’s Alpha	N of Items
.772	27

The overall questionnaire reliability value is 0.772 which is greater than 0.7, hence research instrument of this research is proved to be reliable.

#### Hypotheses Testing

Table 2. Pearson Correlation

		PGS	PR&F	FE	ES
PGS	Pearson Correlation	1	.588**	.405**	.579**
	Sig. (1-tailed)		.000	.002	.000
	N		50	50	50
PR&F	Pearson Correlation		1	.355**	.787**
	Sig. (1-tailed)			.006	.000
	N			50	50
FE	Pearson Correlation			1	.710**
	Sig. (1-tailed)				.000
	N				50
ES	Pearson Correlation				1
	Sig. (1-tailed)				
	N				

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



Table 2 depicts the results obtained through Pearson Correlation. According to the first hypothesis, “the impact of participative goal-setting on employee satisfaction”, the *r* value is 0.579 which indicates a moderate, positive relationship of participative goal setting with employee satisfaction; *p*-value is .000 which is less than .01. This means that impact of participative goal setting on employee satisfaction is significant. Hence, the first hypothesis is accepted.

Regarding second research hypothesis “the impact of periodic review on employee satisfaction”, the *r* value is 0.787 which means that the relationship between periodic review and employee satisfaction is strong and it is significant also because *p*-value is .000 which is less than .01; hence 2<sup>nd</sup> hypothesis is accepted.

As far as the third hypothesis, “the impact of final evaluation on employee satisfaction”, is concerned; the *r* value is 0.710 which means that the relationship between final evaluation and employee satisfaction is quite strong. Moreover, the *p*-value is .000 which is less than .01. This shows that the relationship between final evaluation and employee satisfaction is significantly strong. This third hypothesis is also accepted.

### **Regression Analysis**

The Regression analysis is a statistical procedure for calculating the impact of independent variables on the dependent variable. It is widely used for forecasting and prediction purpose. The multiple regression models predict the value of a variable based on the value of two or more other variables. The Regression analysis covers model summary, ANOVA table and coefficients table.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912 <sup>a</sup>	.832	.822	.34393

a. Predictors: (Constant), Participative Goal Setting, Performance Review, Final Evaluation.

These values in Table 3 indicate as to how well a regression model fits the data. The value of *R* is 0.912 and this value indicates a good level of prediction. *R* Square value is 0.832 which indicates that this model explains 83% variation of all independent variables in the dependent variable. Similarly, the value of Adjusted *R* Square is 0.822 and the Std. the error of the estimate is 0.34393. All these values displayed in Table 4.3 are quite favorable for the research.

Table 4. ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	<b>Regression</b>	27.059	3	9.020	76.249	.000 <sup>b</sup>
	<b>Residual</b>	5.441	46	.118		
	<b>Total</b>	32.500	49			

a. *Dependent Variable: Employee Satisfaction*

b. *Predictors: (Constant), Participative Goal Setting, Performance Review, Final Evaluation*

The ANOVA Table 4 presents the comparison of the difference of the means among more than two groups. Here, independent variables statistically predict the dependent variable;  $F = 76.249$  at the significance level of 0.000,  $p < 0.05$ .

Table 5. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	<b>(Constant)</b>	-.892	.344		-2.596	.013
	<b>Participative Goal Setting</b>	.041	.104	.031	.396	.694
	<b>Performance Review</b>	.634	.080	.597	7.907	.000
	<b>Final Evaluation</b>	.541	.074	.485	7.264	.000

a. *Dependent Variable: Employee Satisfaction*

Results of regression are summarized in Table 5. The coefficients have expected signs; they have a positive impact on dependent variable which is employee satisfaction. The coefficient of participative goal setting shows that with the increase in participative goal setting, the motivation of employees also increases. The coefficient of participative goal setting shows that this variable has comparatively less impact on employee satisfaction as indicated by its value of 0.041 and p-value of 0.694 shows that variable is statistically not significant. Hence, the research cannot reject the null hypothesis and concludes that there is no impact of participative goal setting on employee satisfaction.

The coefficient of ‘performance review’ shows that this variable has a significant impact on employee satisfaction as indicated by its value of 0.634; p-value ( $p < .05$ ) also shows that the variable is statistically significant. So, the null hypothesis that ‘performance review has no impact on employee satisfaction’ is rejected.

The final evaluation is found to be a strong variable in determining

employee satisfaction. The value of  $p = 0.000$  which is  $< .05$ . It means that this variable is useful and is positively related to employee satisfaction. By identifying performance gaps, managers may take appropriate measures to fill the deficiencies.

### **CONCLUSION**

The research has examined the impact of performance appraisal system on employee satisfaction at Karachi Port Trust. Human resource is an important asset of any organization, hence for the development and retention of this asset "Performance Appraisal" is considered to be an important HRM tool. The findings show that there is a positive relationship between the three selected predictors with employee satisfaction. The findings also indicate that participative goal setting creates no significant impact on employee satisfaction whereas periodic review and final evaluation create a significant impact on employee satisfaction at KPT. Participative Goal setting has no impact which may be attributed to our national culture where junior employees are not encouraged for participation during goal setting process. Likewise, in KPT there is no culture of participative goal setting and managers do not give a chance to employees to take part in decision making. Managers periodically review the performance of their employees and employees are found to be satisfied with the final evaluation. However, it is true that employees are not involved in decision making with regard to setting goals. The study has opened a new door for future researchers by establishing the significance of organizational culture; this culture is depriving employees of taking part in decision making, especially at the time of goal setting.

### **RECOMMENDATIONS**

On the basis of weaknesses identified during analysis, the following research recommendations are presented:

- Karachi Port Trust should implement performance management system (PMS) more seriously because PA is an integral part of PMS.
- PA should be done twice a year, as opposed to traditional 'once a year' activity.
- Managers should be trained to compile and prepare the appraisal forms.
- Managers of various departments should be encouraged for participative goal setting.

- Self-appraisal of employees' should be introduced.
- Employee feedback and their suggestions for improvement may be encouraged.
- PAS should be tightly linked with pay raises, promotion, training and career development.

### **AREA FOR FUTURE RESEARCH**

Future researchers may identify new variables which have an impact on employee satisfaction at KPT. The impact of culture on participative goal setting could also be explored. Moreover, instead of quantitative research, rigorous qualitative techniques may also be applied for the analysis. Furthermore, a similar study may also be undertaken by the future researchers in others public and private sector organizations.

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