EFFECTS OF PERFORMANCE APPRAISAL QUALITY ON JOB SATISFACTION IN MULTINATIONAL COMPANIES IN MALAYSIA

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ABSTRACT

Performance appraisal is among the most critical Human Resource functions that brings global success for one organization. It is also important to mention that extensive frustration and dissatisfaction with performance appraisal have challenged practitioners and researchers to appraise the efficiency of performance appraisal quality. The purpose of this paper is to examine the role of the performance appraisal quality (independent variable) on one important human resource management outcome which is job satisfaction (dependent variable). Using data from 133 employees of multinational companies in Malaysia, employees’ performance appraisal experiences were identified. Regression analysis was then employed to examine the relationship between performance appraisal quality of employees and job satisfaction. Employees with high quality performance appraisal experiences were more likely to be satisfied with their job. The challenge for human resource (HR) practitioners is to decide whether the allocation of additional resources to ensure that all employees have a uniformly high quality performance appraisal experience is a worthwhile investment.

INTRODUCTION
In this world of competition as organizations effort to remain competitive and sustainable, human resources professionals and strategic planners should collaborate strongly in designing strategies which are more productive and useful. Based on many researches (Ayaz, n.a.; Dechev Z. August, 2010), the most winning organizations in the 21st century will be those to focus on integrated HR processes and systems. So the role of human resource becomes more and more vital which includes personnel related areas such as job design, resource planning, performance appraisal system, recruitment, selection, compensations and employee relations (Derven, 1990).

Among these functions, one of the most critical ones that bring global success is performance appraisal (Marquardt, 2004). It is more considerable than other processes because its results show the success of the awareness of the other areas in the field of Human Resources and other personnel activities (Anthony William, 1993). In the other perspective, assumptions of corporate management show that performance appraisal makes people to be really engaged in the business of the organization (Reid & Hubbell, 2005).

During the last ten years, the number of studies which examined the effects of performance appraisal systems on employee had increased (Brown et al., 2010). In another study by Brown 2010, the researchers surveyed 6,957 employees of a large Australian public sector organization regarding their opinions and perceptions of the appraisal quality. The findings of this study revealed that there was a direct relationship between performance appraisal satisfaction and employee outcomes, which is mostly job satisfaction among employees (Brown et al., 2010). However, comprehensive study of the performance appraisal quality in a field setting is limited (Addison, 2007). Moreover, a number of studies have provided support for the argument that performance appraisal has remained a problem which is vague and perhaps unsolvable in human resource management (Schay, 1993).

There were other studies which revealed that characteristics of performance appraisal quality and their impact on sales force satisfaction, job satisfaction and organizational commitment
However, in Malaysia, the research in this field is very limited. There were studies to investigate the reaction of employees to various aspects of the appraisal process. Besides the study conducted by Poon (2004), very little is known about the relationship between performance appraisal quality and employee outcomes, especially in identifying the effects of performance appraisal quality towards the job satisfaction among employees in multinational companies in Malaysia. The results and findings from this research would generate new conclusion to enrich the existing literatures on performance appraisal in Malaysia.

**LITERATURE REVIEW**

**Performance Appraisal Quality**

There is an increasing use of the performance appraisal process (Carrol & Schneir, 1982; Ishaq, 2009; Dechev Z., 2010) which is mostly motivated by an organizational need to have an effect on employee’s attitudes, behaviors and eventually, organizational performance (Murphy & Cleveland, 1995). This happens as a result of the establishment of objectives at the beginning of the assessment cycle which brings employees with obvious performance goals view, also the supervising of performance during the assessment cycle (which can be helpful for poor performers) and the support provided for high-quality performance through rewards, typically in the type of higher pay (Milkovich, A.K., & Wigdor, 1991). Performance appraisal is considered to encourage employee performance in consequent performance cycles (Heneman & Werner, 2005). The capacity to achieve these positive outcomes will be a function of the quality of the performance appraisal experience. By the help of the operations management field, we can realize the meaning of quality which is typically explained as establishing and operating processes that support organizational effectiveness. The aim of a quality approach is to reduce variation in each process in order to get greater consistency (Roberts & Sergesketter, 1993).

Employees are sensitive to quality variations in performance appraisal as its processes are a powerful determinant of employees’ futures such as having promotion, rewards, demotion or even termination of their job within the organization (Mayer & Davis, 1999). Thayer (1987)
suggested performance appraisal quality variations will generate strong reactions among employees. Organizational efficiency can be affected by the quality of the performance appraisal process (Brown, Haytt, & Benson, 2010). Based on Brown and et al., (2010) research; one source of quality variation in performance appraisal is the approach and attitudes of supervisors to the performance appraisal. One basis of quality variation is given from the general attitudes that supervisors have towards this process. Many writers have identified the unwillingness of supervisors to carry out appraisals. According to a survey, managers frequently stay away from the appraisal process because they either feel the potential returns from their appraisal efforts are not valuable of the essential investments or they fear the consequences (Latham et al. 1993).

Being familiar with the meaning of quality in a performance appraisal context, we now identified the exact indicators that can be used to generate a measure of performance appraisal quality (Brown, Haytt, & Benson, 2010). Here are the four principal indicators:

The first one is clarity of performance expectations, which shows the scope to which employees are familiar with the purpose and role of the performance appraisal. This will involve precision and clearness of the role of performance appraisal that will play in shaping an employee’s fate within the organization and the performance appraisal process (Brown et al. 2010). The second indicator is the level of communication between the employees and their supervisors that specifies the opportunities to evaluate information and acquire supply, in combination with clarity about performance appraisal processes provide employees with the chance of exercising a level of process control. Moreover, providing an employee with the chance to express his or her opinion is appreciated in it and certifies his or her belongings in the organization (Brown, Haytt, & Benson, 2010). The third indicator is trust in the supervisor; employees who consider their supervisor is capable and has high-quality knowledge of their employees’ job responsibilities will be more probable to rate their performance appraisal experience positively and trust their supervisor (Greenberg, 1896). Furthermore, when employees trust their supervisor, they grasp positive outlooks about their supervisor’s motives, judging that their
manager will act in their finest attention. The forth one is fairness of performance appraisal process; employees want to be treated fairly throughout the performance appraisal process as this is considered to have an effect on the quality of the results of the process (Fortin, 2008).

Performance Appraisal in Malaysia

Based on researches review, the implementation of performance appraisal in Malaysia had taken place since two decades ago. There are evidences that can be found from different articles (e.g. Poon, 2003; Kumar, 2005) which explained the implementation of performance appraisal in Malaysia. Between in the starting years of 1980s to 1990s, there were so many doubts about the positive points that Malaysians can obtain by implementing performance appraisal system in Malaysia. Accordingly, several researchers conducted some feasibility studies to identify the significance of the performance appraisal system in Malaysia. One of the most outstanding researches was done by Vance et al. (1992) in early 90s, which explained the implementation of performance appraisal systems in Malaysia.

Malaysia’s improvement has resulted in having more trades and development in its companies, especially multinational companies. Consequently, they provide performance appraisals for diverse nationals within MNCs, they are considered to have cultural sensitivity as international performance appraisal deals with the issue of cultural applicability, for example, in some Asian countries such as Japan and China, group meetings are frequently held in appraisal processes to achieve group harmony and feedback is usually not given in order to save face. This kind of Asian culture is noticeably different from Western individualism cultures (Shen, International performance appraisals, 2004).

Concept of Job Satisfaction

Job satisfaction has been defined in several different ways and an ultimate designation for the term is unlikely to appear. Based on Joo and Park’s (2009) explanation, job satisfaction is distinct as constructive psychological or job-related results or accomplishments that a person
builds up as a result of work skills. Job satisfaction is related with how well our personal prospects at work are in line with outcomes (Walsh, 2003). Based on Ayaz Khan’s research, the words satisfaction and morale are comparable words referring to the level which the organization meets the needs of employees and the indicators of job satisfaction consist of employee attitudes, absenteeism, turnover and grievances (Khan). Joo and Park 2009 found that career satisfaction is frequently evaluated as a subjective job success that is defined by the person`s satisfaction with their job accomplishments.

CONCEPTUAL FRAMEWORK

The dependent variable is job satisfaction and the independent variable is performance appraisal quality. From the literature review, four indicators of performance appraisal quality have been identified, which are clarity of performance expectations, level of communications between the employee and their supervisor, trust in the supervisor, and the fairness of the performance appraisal process. Moreover, for dependent variable there are different indicators such as employee attitudes and interest, job success, and feedback.
Research Hypotheses

Job satisfaction is the outcome of an employee’s awareness of how well their job provides those things that are viewed as essential (García-Bernal, Gargallo-Castel, Marzo-Navarro, & Rivera-Torres, 2005). A high quality performance appraisal experience is expected to improve employees’ feelings of attitudes, achievement, self-worth about their job and their feelings of a constructive position in the organization (Lind & and Tyler, 1988). High quality performance appraisal experiences are consequently paramount to generate high levels of job satisfaction.
A low quality performance appraisal experience may result in a lower level of job satisfaction. The employee is likely to feel that their contributions are not valued as they have limited capacity to exercise any process control and experience some confusion about the performance expectations of the organization. The process of trial and error in attempting to live up to vague performance expectations will reduce the employees’ feelings of achievement and self-worth and ultimately job satisfaction (Donald & Campbell, 2010).

Hypothesis

H01: There is no significant positive relationship between the performance appraisal quality and job satisfactions of employees of MNCs in Malaysia.

H1: There is a significant positive relationship between the performance appraisal quality and job satisfactions of employees of MNCs in Malaysia.

RESEARCH METHODOLOGY

This is the first attempt to investigate the general determinants of performance appraisal quality in Malaysian context without limiting the research scope or area. Both primary and secondary data were collected for this research. This study uses sampling method to extract performance appraisal quality information from respondents. The research instrument used in this study is a structured questionnaire. The questionnaire comprises of four sections. Section A solicits general information from the respondents namely gender, age, marital status, years of service in the organization, monthly income, total number of employees in the organization and in which department they currently work. Section B consists of 6 statements and is used to solicit the information pertaining to employee’s feeling towards their current job to evaluate about their job satisfaction. Section C seeks information pertaining to respondents’ career performance quality concern. In addition, the subscales of performance appraisal quality have also been included in order to obtain more in-depth information regarding their work from the respondents.
In this research, the researcher selects the probability sampling that is, the simple random sampling approach is used whereby each and every member of the population has an equivalent and independent chance of being chosen. The questionnaires were distributed evenly to the main multinational companies in Malaysia which are mainly situated in Kuala Lumpur. Factors such as time constraint, cost and population size were taken into consideration before selecting the appropriate sample size for this study. A total of 250 questionnaires have been distributed with the help of my supervisor and friends. The questionnaires included a cover letter that explained the purpose of the study and assurance of confidentiality of the information obtained. All data had been collected from mid-January 2012 to end February 2012, over a period of 4 weeks. However, only a total of 133 questionnaires (53%) from the administrative, clerical, professional, supervisory and managerial staff in the multinational organizations were collected.

MEASURES

In this research, questionnaires are used to find out the employees’ perception of performance appraisal quality, employees’ job satisfaction. These variables are measured with a set of questions adopted from different sources. The questionnaire is divided according to the variables where each variable is measured using a set of between three and six items. Based on the previous researches the reliabilities are above 0.7 for all the variables adopted. Thus, there is no pilot test required for these selected items, All responses are measured on a five-point scale anchored on 1- “Strongly Disagree”, 2- “Disagree”, 3- “Neutral”, 4- “Agree”, and 5- “Strongly Agree”, so the respondents are requested to indicate the extent that each statement characterized them using the Likert scale format from 1 (agree) to 5 (disagree).

Components of Independent and dependent variable

Our measure of the quality of the performance appraisal experience combines items to assess the overall quality of an employees’ performance appraisal experience. The earlier discussion of employees’ expectations of a quality performance appraisal process suggests that four features
should be included in our measure: clarity of performance expectations, level of communications between the employee and their supervisor, trust in the supervisor and the fairness of performance appraisal process. Clarity in the performance appraisal process was measured by three items from Brown, et al., (2010). A representative item in this scale is: “When I took up my current position I knew how my performance would be periodically evaluated”.

The extent of communications between the employee and the supervisor was measured by four items from Brown, et al., 2010. A representative item in this scale is “Often the progress towards my goals set in previous meetings reviewed by my supervisor with me”. The level of trust in the supervisor was measured by four items from Tang and Sarsfield-Baldwin (1996). A representative item in this scale is “I have confidence and trust in my immediate supervisor regarding his/her general fairness”. The fairness of the performance appraisal process was measured by four items from Brown, et al., 2010. A representative item in this scale is “My last performance appraisal was fair”. Using cluster analysis, these four scales are combined in order to assess the overall quality of an employee’s performance appraisal experience. The resulting variable is then used as an independent variable in the regression analysis. The dependent variable, job satisfaction, is measured by five items from Price and Mueller (1981) and Spector (1997). A representative item in this scale is “Most days I am enthusiastic about my job”.

RESULTS

Profile of Respondents

In this study, in order to have a better understanding on the demographic characteristics and specifications of the respondents, frequency analysis has been used. Totally, there are seven questions that give a brief overview of demographic attributes of respondents. As presented in Table 1, out of 133 respondents in this study, 64.7% of respondents are male and the remaining
35.3% are female. A total of 78 people are married which is 58.6% of respondents. The mode age of respondents in this study is between 30 to 39 years old with 42.9%. The length of service tells the experience of respondents in line with the nature of their work in their organization. In this study, 36.8% of respondents have been serving an organization between 6-10 years; and 32.3% of respondents are earning between RM 2001-RM 3000 per month. In this study, all respondents are from MNCs, 18% of them are from big organization and 7.5% of respondents are working in an organization with less than 100 employees; and 33.8 of respondents each are working in an organization with 301-500 and 501-700 employees respectively, also respondents are selected from different departments.

Data Analysis

The reliability test of the independent variable with 15 items (consists of four indicators) has the highest Cronbach’s alpha 0.888 which is higher than 0.70. The reliability of the dependent variable is also higher than the standard number (0.744). The factor analysis for the independent variable in Kaiser-Meyer-Olkin (KMO) test, its measurement of sampling adequacy, is 0.872, indicating sufficient inter-correlations since it is greater than 0.5. Moreover, the Barlett’s Test of Sphericity is highly significant (Chi-Square = 709.851, \( P < 0.000 \)). For the dependent variable the factor analysis in Kaiser-Meyer-Olkin (KMO) test is 0.728 which is greater than 0.5 and indicates sufficient inter-correlations while the Barlett’s Test of Sphericity is highly significant (Chi-Square = 170.637, \( P < 0.000 \)).

Hypothesis

H01: There is no significant positive relationship between the performance appraisal quality and job satisfactions of employees of MNCs in Malaysia.

The Pearson correlation between six statements of job satisfaction with performance appraisal quality of four indicators that contain 15 statements is measured. The job satisfaction indicators
have high correlations with most of the performance appraisal quality statements. Coetzee (2009) explained that when taking into account the correlation between the independent variable (performance appraisal quality) and the dependent variable (job satisfaction), the more the degree of the correlation, the stronger linear relationship between them would be. Table 1 indicates inter-correlations between job satisfaction, the total four subscales of performance appraisal quality. From the analysis, it is noted that the total performance appraisal quality is positively correlated \((r = 0.559, P. value .000)\) with job satisfaction. Consequently, H01 is rejected and H1 is confirmed since there is a significant positive relationship between the performance appraisal quality and job satisfactions of employees of MNCs in Malaysia.

### Table 1: Pearson Correlation between Job Satisfaction and Total Performance Appraisal

<table>
<thead>
<tr>
<th>AveragePAQ. Indicators</th>
<th>AverageJobSatisfaction.Indicators</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
<th>133</th>
</tr>
</thead>
<tbody>
<tr>
<td>AveragePAQ Indicators</td>
<td>Pearson Correlation</td>
<td>.559**</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>133</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

### Regression Analyses

**Components of Performance Appraisal versus Job Satisfaction (Enter Mode)**

The regression equation for components of performance appraisal and job satisfaction with R square of 33% is:

\[
\text{Job satisfaction: } 0.571 + 0.137 \text{ (Clarity of Performance Expectations)} + 0.172 \text{ (Level of Communication)} + 0.118 \text{ (Trust in the Supervisor)} + 0.251 \text{ (Fairness of PA Process)},
\]
furthermore, as it is mentioned in the Table 2 only two indicators of “Level of Communication” (P.value: 0.077< 0.05) and “Fairness of PA Process” (P.value: 0.015< 0.05) in enter mode can be considered as good predictors, so there is a need for stepwise mode to see which components of performance appraisal quality are suitable predictors for job satisfaction.

Table 2: The Coefficients Table of Enter Mode (Performance Appraisal Indicators & Job Satisfaction)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.571</td>
<td>.175</td>
<td>3.260</td>
<td>.001</td>
</tr>
<tr>
<td>Clarity of Performance Expectations</td>
<td>.137</td>
<td>.092</td>
<td>1.490</td>
<td>.139</td>
</tr>
<tr>
<td>Level of Communication</td>
<td>.172</td>
<td>.097</td>
<td>1.785</td>
<td>.077</td>
</tr>
<tr>
<td>Trust in the Supervisor</td>
<td>.118</td>
<td>.100</td>
<td>1.185</td>
<td>.238</td>
</tr>
<tr>
<td>Fairness of performance appraisal</td>
<td>.251</td>
<td>.102</td>
<td>2.456</td>
<td>.015</td>
</tr>
</tbody>
</table>

Components of Performance Appraisal versus Job Satisfaction (Stepwise Mode)

Here, the regression between job satisfaction and the components of performance appraisal quality in the form of stepwise is analyzed and the equitation for it is written to see those components which are the best predictors for job satisfaction. In stepwise mode, the regression equation for components of performance appraisal and job satisfaction with R square of 31% is: Job satisfaction: 0.728 + 0.344 (Fairness of PA Process) + 0.263 (Level of Communication)
As being mentioned in the Table 3, only two indicators of “Fairness of PA Process” (P.value: 0.000< 0.05) and “Level of Communication” (P.value: 0.004< 0.05) in enter mode can be considered as good predictors for job satisfaction.

Table 3: The Coefficients Table of Stepwise Mode

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.728</td>
<td>.163</td>
<td>4.472</td>
<td>.000</td>
</tr>
<tr>
<td>Fairness of performance appraisal process</td>
<td>.263</td>
<td>.089</td>
<td>.273</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.953</td>
<td>.004</td>
</tr>
</tbody>
</table>

The key findings indicated that high quality performance appraisal positively influences employees' job satisfaction. Furthermore, there are several researches in the past which have highlighted similar relationships. The findings also highlight that employees must experience positive appraisal feedbacks in order for performance appraisal to positively influence employee attitudes and behavior (Murphy & Cleveland, 1995; Kuvaas, 2007). Moreover, in this research, it is revealed that clarity of performance expectations in performance appraisal had a greater influence on attitudinal reactions for high performers. This study revealed that there is a relatively strong relationship between performance appraisal high quality and job satisfaction (β = .615, p < .001).

IMPLICATIONS
This study presents that when a performance appraisal process is conducted in an organization but offers employees with a low quality experience, not only does the method is unsuccessful to create any encouraging HR results, it also brings some negative effects in the form of minor job satisfaction. This is in line with results in the emotions and justice literature that negative appraisals are influential drivers of employee behaviors and attitudes (for example, Brown et al., 2010). Performance appraisals are a basis component of human resource management; the outcomes of appraisals are used as the foundation of many HR decisions. While organizations devote considerable resources and time into performance appraisal this collected study has demonstrated that the quality of the employee performance appraisal experience are different. There are employees with low quality performance appraisal experiences while at the other end of the scale, there are some employees who state high quality experiences of the performance appraisal process. Moreover, this research demonstrates that organizations pay a price for letting low quality performance appraisal experiences: when employees have low quality performance appraisal experiences the organization will likely to bring a penalty in forms of lower job satisfaction and higher intentions to quit.

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