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Role Of Performance Appraisal On Employee Retention And Organizational Commitment In Banking Sector Of Pakistan

Abstract

The organization can gain competitive benefits by retaining loyal, productive and qualified HR. This study examines the role and association of performance appraisal with employee retention and organizational commitment in banking sector of Pakistan. The population of the study consists of 8 major banks of Pakistan, including private, public, foreign and Islamic banks. Data was collected with the help of a mixed-method approach through interviews and questionnaires. Purposive and stratified random samplings were used for interviews and questionnaires respectively. The finding of the study indicates that the performance appraisal has significant association and role in increasing employee retention and organizational commitment. The result of the study is helpful for the managers of the banking sector of Pakistan to focus and concentrate on those characteristics of performance appraisal which has a significant effect on employee commitment and retention at the time of designing and implementing the system of performance appraisal. The employees' gain confidence and trust due to objective, formal, clear, understandable, transparent and multi assessed system of performance appraisal.

Keyword: Retention, Performance Appraisal, Banks, Turnover, Commitment.

Introduction

The success of any organization is dependent upon employee performance. Employees are valuable assets and due to the highly fluid nature of the asset, it has become most important for every public or private organization. The 4 M: Money, material, men and machines. Out of them, the most important is men. It is need of the time to keep them satisfied and happy so that they can be retained and work above par. No doubt the employees can lead an organization towards prosperity with their determination and hardworking, but their dissatisfaction may cause the downfall of the organization (Khan et al. 2011).

Employee retention is the ability of an organization to retain valuable employees and restrain them from leaving the organization. It can be done by implementing different people management strategies, shaping employee behavior and relationship to stay in the organization for the long term. These strategies may be

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related to HR policies and practices. Kyndt et al. (2009) state that to implement important and appropriate retention strategies are very crucial for long and short-term sustainability and viability of the organization. Thus employee retention and commitment are mandatory for an organization to provide efficient and effective services.

Organizational commitment is based on relevancy and trust of the employees. The organization can build relevancy and trust with the help of effective and efficient performance appraisal system and it will increase the performance of the organization (Kuvaas, 2007). If the organization performance appraisal did not meet the organizational objectives and fail to review the performance appraisal, then the employee commitment and performance will also decrease (Kazim, 2008). Generally, the dissatisfied and unhappy employee will not remain with the organization for a longer period and does not provide the best services to the customers. The happy, committed and satisfied worker will focus on his work and there is a smile on his face during the provision of service to the customers.

Performance appraisal system plays a very vital role to increase employee retention and commitment because it is helpful to identify employee's weaknesses, strengths and future skills required for employee growth and performance. It is considered a door to increase employees' growth and career in the organization. Thu (2017) state that performance appraisal is helpful to meet the objectives and targets of the organization. The staff also has higher expectation from the performance appraisal system because employees believe that it is useful to improve the performance (Gruman & Saka, 2011). Thus due to the high expectation from performance appraisal, it has a significant effect on employees intention to stay for the long term in the organization.

Performance appraisal is one of the major HR practices to gain competitive advantages and sustainable growth in many multinational organizations (Gruman & Saks, 2011). Academically, effective performance appraisal increases the quality of individual and organizational performance with the help of two way communication by setting objectives and receiving feedback. Improvement in employees' performance leads towards an increase in employee commitment and satisfaction, or it makes employees loyal, engage and builds trust, which the organization is expecting from them (Kuvaas, 2011; Murphy & Cleveland, 1995).

The Management Study Guide (2017) posit that performance appraisal is one of the major techniques to motivate the employees by providing equal opportunities to all staff for career growth and development in the organization. It also facilitates in the training activities to improve employee performance. Thus the good and effective performance appraisal system will engage and attract the employees to remain with the current organization for a long period. Azeez (2017) conclude from his study, retention has many benefits for the organization, i.e., to increase productivity, maintain quality services and products in the organization and leads toward profitability by holding the customer for long term.

Reviewing the current literature on HRM, retention and organizational commitment in the banking sector of Pakistan, there is no comprehensive study available with special reference to the banking sector of Pakistan regarding the

role of performance appraisal system on employee retention and organizational commitment. Hence, this is an unexplored area in the banking sector of Pakistan.

The major objective of this study is to explore the association and effect of performance appraisal system on employee retention and organizational commitment in the banking sector of Pakistan. The next objective is to identify factors that have a direct and indirect effect on performance appraisal and its basis in the banking sector.

Literature Review

The performance appraisal system is one of the major HR practices (El Sagheir, 2014; Mittar et al., 2014). It evaluates the employee contribution towards the organization in term of capability, internal characteristics and working performance to chase higher position (Gruman and Saks, 2011). With the help of appraisal, the problems can be identified at the initial stage along with proper planning to address the issues (Murphy & Cleveland, 1995). Zapata-Phelan et al., (2009) posit that, the appraisal system is one of the major and vital factors for efficiency and effectiveness of HRM as evident in the literature. Thus in the western world, performance appraisal system is widely used as one of the major HRM strategies to retain the employees for the long term.

Performance Appraisal and employee retention

Performance appraisal means the formal system to evaluate and review the employees and team performance (Mondy, 2010). It is a challenge for the HR managers to retain the high performers and to improve the performance of the poor employees with the help of performance appraisal. Kim (2011) argued that the organizational objectives could be achieved efficiently with the support of the appraisal system. The effective appraisal system will increase the skills and develop the employees by the feedback of evaluator.

Rao KSS et al., (2018) conduct the study in the Ramesh hospital of Vijayawada and conclude that performance appraisal has a substantial and direct effect on employee retention. Perera (2019) conducts the study on the IT organizations in Sri Lanka and concludes that performance appraisal has a substantial and positive association with employee retention. In view of the above discussion, the following hypothesis can be developed.

H1: There is significant effect of performance appraisal on employee retention in the banking sector of Pakistan.

[Njonjo \(2017\)](#) argue that the performance and commitment of the employees could be increased with the help of a performance appraisal system. Eunice (2014) conducted a study in the Nigerian manufacturing industry and found that there was significant association between performance appraisal and organizational commitment. The results also indicated that fair and regular performance appraisal will also increase the commitment of the employees towards their work and organization.

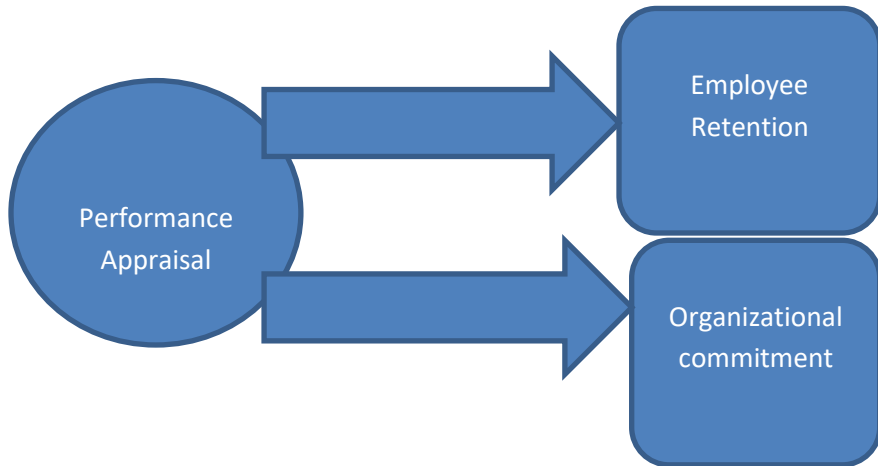
Piyasena (2016) conduct the study in the apparel sector in Sri Lanka and finds that there is a positive correlation between performance evaluation and organizational commitment. Hassan and Mahmood (2016) conduct the study in the textile sector

of Pakistan and find that performance appraisal has a significant effect and association with organizational commitment. In the light of the above discussions, the following hypothesis can be developed.

H 2: There is significant effect of performance appraisal on organizational commitment in the banking sector of Pakistan.

Theoretical framework

The following theoretical framework is developed on the basis of the above literature.



Research Design

The data was collected through mixed-method approach, i.e., qualitative and quantitative method. The mixed method approach was used to validate the research findings and to achieve the research objectives. The interview guideline was used for qualitative analysis which is helpful to interpret the phenomena without focusing on numerical data. The questionnaire on 5 points Likert scale was used for quantitative analysis.

The population of this study consists of HR managers and managerial employees working in the eight major banks of the Pakistan including public, private, Islamic and foreign banks. The interviews were taken from the 24 managers of the banking sector by selecting three managers from each bank through purposive sampling techniques.

Multi-stage sampling was used for the questionnaires. The sample was calculated on the basis of model given by Krejcie & Morgan (1970). The total sample size was 480 and 60 respondents were selected from each bank based on stratified random sampling. The bank, gender, job status and designation were the base of strata for the true representation of the sample. The questionnaire was adopted, which were already used by many authors. The reliability test was conducted which indicate that the value of Cronbach alpha is greater than 0.70 which clarify that the instrument is reliable and valid. 380 questionnaires were returned back and thus response rate was 79%.

Statistical Technique

Themes and nodes were used for qualitative analysis. The reliabilities, correlation matrix and regression, were used for quantitative analysis. Nvivo, SPSS and MS Excel were used for the analysis of data.

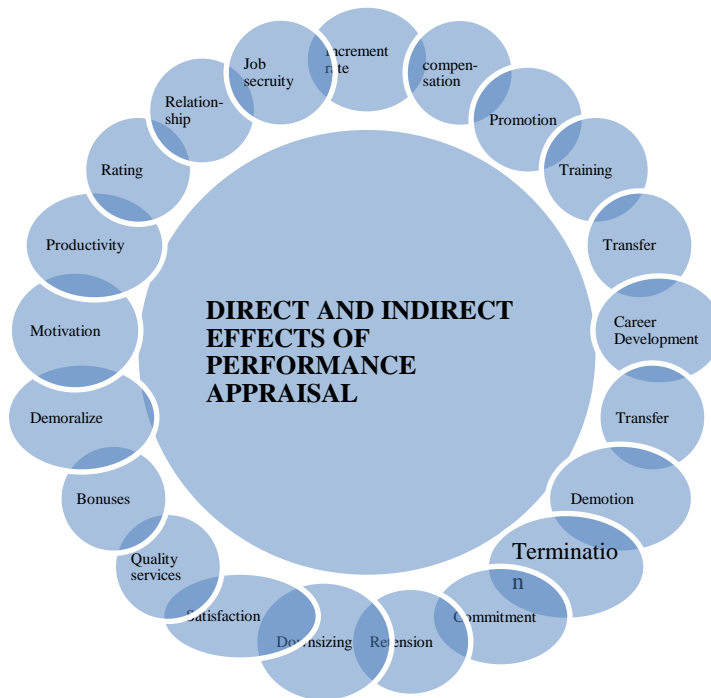
Qualitative Analysis of Performance Appraisal

The brief finding of qualitative analysis is as under.

The HR managers were requested to submit their view regarding the importance of performance appraisal and how it has an effect on employee retention. Most of the managers state that Performance appraisal is very vital for the employee's retention and if the employee gets the 'A' or 'B' grade in the performance appraisal, then he is satisfied with himself because top management is also satisfied with him. The employees who get Grade A and B are entitled for promotion and thus retain in the organization for long term. If the employee gets the 'C' or 'D' grade then top management is not satisfied with his work and he tries to find out other opportunities. When the bank decided to downsize, it will choose those employees who got 'C' or 'D' grade from the last two or three years and will terminate them because these are not feasible for the bank.

There are many direct and indirect effects of performance appraisal in the banking sector of Pakistan. The following figure 1 indicates these effects.

Figure 1: Effect of performance appraisal

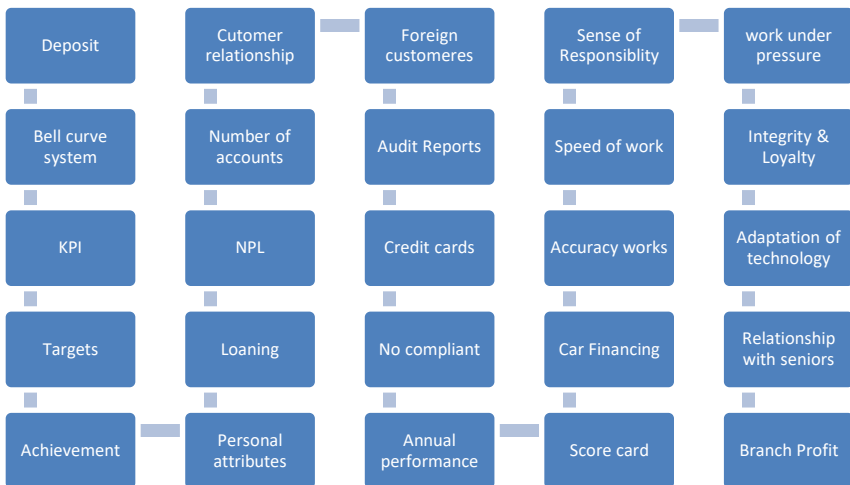


The bell curve or quota system is being used in different banks for employees appraisal. The response from one of the HR managers is as under.

“The performance appraisal is based on the quota system, which is not feasible for the assessment of employees. The management issue the directions regarding appraisal of employees, i.e., 30% should fall in excellent, 20 % in very good, 30% is good, 10% in fair and 10% poor. If the performance of all the employees is satisfactory, then there must be poor grade to someone. Due to the quota system, the employees demoralize and leave the organization, however this system create the environment of competition among staff.”

The manages are of the view that the employee performance appraisal is based on different KPI. The following figure 2 indicates the major basis of performance appraisal.

Figure 2: Basis of performance appraisal



As per the interview of the foreign bank managers, it is observed that the employee appraisal is fair and system based. The response is as under.

“Performance appraisal affects employee retention. The appraisal is a system based which is available online. The employee himself can monitor his and others performance and increment rate. The employee himself can assess his performance through the employment code.

The public sector managers state that for some employees, it is reference-based, which also demotivate the good performers. The increment rate is based on the appraisal rating.

In view of above, it is clear that the performance appraisal has a significant role and association with employee retention and organizational commitment in banking sector of Pakistan.

Correlation Analysis

The correlation analysis is used to find out the association between employee retention and performance appraisal.

Table 1: Correlations between PA and Retention

	Retention	Performance Appraisal
Retention	1	.533**
Per.Appraisal	.533**	1

There is a strong positive association between performance appraisal and employee retention because the value of correlation is .533(**), $p < .01$. The findings of the study are also matched with the findings of a study conducted by Hussain & Rehman (2013) in the textile industry of Pakistan.

Regression Analysis

Regression analysis is used to find out the effect and role between employee retention and performance appraisal. The following table specifies the results of regression analysis.

Table 2: Regression Analysis of Retention

R	.533 ^a		
R Square	.284		
Adjusted R Square	.282		
Standard Error	.72715		
F	149.813		
Sig.	.000a		
Durbin Watson	1.453		
Independent Variable	Beta	t-value	Sig.
(Constant)		8.369	.000
Performance Appraisal	.533	12.240	.000

The regression analysis is used to display the role of performance appraisal on employee retention, which also validates the findings of the correlation matrix. Table 2 indicates that the performance appraisal system explains 28 % variation in the Retention variable. The F value is 149.813, which indicates that the model is a good fit at a significance level of 0.000. The results of the regression analysis indicate that performance appraisal has a positive and significant role in employee retention. The value of beta is 0.533, which is significant at 1% level of alpha. The finding of the study also matched with the finding of a study conducted by Juhdi et al., (2013) on the selected region of Malaysia.

Correlations analysis between Performance appraisal and organization commitment

The following table shows the association between the performance appraisal and organizational commitment.

Table 3: Correlations between PA and organizational commitment

	Org.Commit	Performance Appraisal
Org.Commit	1	.486**
Per Appraisal	.486**	1

Table 3 indicates that there is a positive and significant association between performance appraisal system and organizational commitment in the banking sector of Pakistan. The value indicates the positive relationship between these two variables because the value of r is .486(**), $p < .01$. The results of the study are also matched with the verdicts of the **T.Mangaleswaran & P.T Srinivasan (2015)**.

Regression Analysis

Regression analysis is used to find out the effect of Performance Appraisal on organizational commitment. The following table specifies the results of the regression.

Table 4: Regression Analysis of Organizational commitment

R	.486		
R Square	.237		
Adjusted R Square	.235		
Standard Error	.75857		
F	117.168		
Sig.	.000a		
Durbin-Watson	1.492		
Independent Variable	Beta	t-value	Sig.
(Constant)		8.925	.000
Performance Appraisal	.486	10.824	.000

The regression analysis also validates the findings of the correlation matrix. Table 4 indicates that 23 % variation in the organizational commitment is explained by performance appraisal. The value of F is 117.168, which indicate that the model is a good fit at a significance level of 0.000. The results of table 4 indicate that performance appraisal has a significant and positive role on organizational commitment because the beta value is 0.486 which is significant at 1% level of significance. The finding of the study is also matched with the results of Ghazanfar et al., (2012) in the banking sector of China.

Discussion

Performance appraisal plays a very valuable role in employee retention and organizational commitment because the bonuses, promotions, rewards, increments and compensation etc. have a direct link with the performance appraisal. When employee performance is good but its appraisal is not good, then the employee has a high intention to leave the organization. The bell curve system is being used in the banking sector of Pakistan and sometimes it becomes very difficult for management to rate the employees when their performance is almost equal. On the other side, it creates an environment of competition among the employees.

The qualitative results indicate that performance appraisal plays a very important role to increase employee retention and commitment. If this system is fair, the employees become committed and remain for a longer term with the organization. If the performance appraisal is not proper and fair, it will demotivate and dissatisfy the employees, which ultimately reduce the employee's retention and commitment level. The performance appraisal system in foreign banks is effective and good because it is system-based and every employee can check and monitor his own and other employee's appraisal and their rating online. The quantitative results also support the qualitative results and find that there is a positive association and role of performance appraisal with employee retention and organizational commitment in the banking sector of Pakistan.

Implications

The organizations aiming to increase retention rate and commitment need to adopt fair performance appraisal methods while evaluating employees' performance. The performance appraisal system in the foreign bank is very strong wherein system based performance appraisal is made. The appraisal system in the public sector banks is not good as compare to other banks which should be improved. The banking sector should adopt the online system for appraisal as available in foreign banks. The performance appraisal has a direct link with the employee promotion, job security and increment rate thus this variable is also very important for employee retention and organizational commitment.

Conclusion

In today's competitive environment, employee retention has become a big challenge for the organization to deal with it effectively. It is concluded from the above study; performance appraisal system has significant association and effect on employee retention and organizational commitment in the banking sector of Pakistan in the light of qualitative and quantitative analysis. Employee retention and commitment can be increased with the help of a fair and proper appraisal system. The performance appraisal has a direct and indirect effect on compensation, promotion, productivity, increment rate, transfer, demotion, termination, quality services and motivation of the employees. The performance appraisal system is based on different KPIs, i.e., deposits, number of accounts, car financing, credit card, annual performance, profits, targets, integrity and sense of responsibilities etc.

Recommendation and Future direction

- In the developing countries, the political and civil intervention is made in every phase of life. The rater should maintain the file of employee and continuous feedback should be given to the employees during the period of performance appraisal instead of year-end.
- The rater should focus on actual work performed and target achieved by the employees to reduce subjectivity.
- The rater should inform the employees about their weaknesses and strengths to build trust between employees and their incharge to increase employee commitment and retention. Two-way communications are mandatory to set the standard to measure and increase employee performance.
- The organization should also review the quota system of performance appraisal.
- In the current study, the demographic variables were not used for analysis. In future, the analysis of demographic variables should also be made. The sample size is small and to generalize the finding, it should be increased. The current study is made in the banking sector of Pakistan and in future, this study can be tested in another sector.

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