



## Performance Appraisal Practices and Their Impacts on Employee Performance: A Study of Banking and Financial Institutions in Nepal

Dr. Fuangfa Amponstira<sup>1</sup>, Suraj Sundar Shrestha<sup>2</sup>

<sup>1</sup> Graduate School, Shinawatra University

<sup>2</sup> School of Management, Shinawatra University

### Abstract

*This study brings into understanding the impact of performance appraisal practices on employee performance. The study considers employee performance as dependent variable which is based on independent variable performance appraisal practices, which includes performance identification, performance measurement and performance management. Based on the primary data collected through the questionnaire survey method, the case found significant, positive relationship between employee performance and performance appraisal practices on the basis of Performance Measurement and Performance Management. The study also revealed that the Performance Identification does not have significant relationship with employee performance in the banking and financial institutions of Nepal.*

**Keywords** *Performance Appraisal practices, Performance Identification, Performance Measurement, Performance Management, Employee Performance.*

### Introduction

The biggest challenge for any organization is to properly manage the human resource of the organization. It is very crucial to understand which employees are necessary for the organization success and retain them (Cappelli, 1999). Productive employees can perform more and better than the non-productive employees (Lazer, 2000). Performance appraisal practices plays a very crucial role in organization to determine and manage the performance level of the human resource (Ahmad & Bujang, 2013). Employee performance is everything about the performance of employees in a firm or a company or an organization. It involves all aspects which directly or indirectly affect and relate to the work of the employees (Moore, 2017). Employee performance is key factor to determine success in any organization.

It is crucial for the organization to increase the performance of the employees (Mayhew, 2017), thus the organization uses performance appraisal to measure the performance of the employees and provide feedback to the employees (Schmitz, 2012) so that they can self-reflect and improve their performance in the areas they are lacking efficiently increase the quality and quantity of their output. The benefits that management



get from Performance Appraisal are the identification of high performers and poor performers as well as the identification of strengths and development areas of employees. (Jackson & Schuller, 2012). Performance appraisal systems are used for different purposes in which include Human resource decisions, evaluation and feedback (Cleveland, Murphy, & Williams, Multiple uses of performance appraisals : Prevalence and correlates, 1989).

Performance appraisal is a process designed to evaluate, manage and eventually improve employees' performance It is important to assess employees and develop their competencies, enhance performance and distribute rewards (Fletcher, 2001). Performance appraisal needs to be the top priority in today's changing environment to encounter competition. High performing organisations gain a distinct competitive advantage by effectively linking employee performance to corporate achievements. Performance appraisal is indispensable in training and development activities to assess potential and identify training needs (Thomas & Bretz, 1994).

Performance appraisal has been described as “the process of identifying, observing, measuring, and developing employee performance in organization (Carroll & Schneier, 2002). similarly, Performance is defined as the record of outcomes produced on a specified job function or activity during a specified time period Employee performance is depending on a variety of activities as a function it associated with training and development and performance appraisal (Khan, Ali, Hussain, & Safdar, 2015). Like other companies of different industries throughout the world, Nepal's banking and finance sector also use performance appraisal method to evaluate and measure their employees productivity, employee output, turnover, training needs and promotion criteria.

In Nepal Commercial banks have provided employment to 22,465 numbers of individuals as of mid-July 2015, of which private commercial banks employed 65 % and 3 public banks employed the rest (Nepal Rastrya Bank, 2016). Out of which, Nepal Bank Ltd. has 2,356 employees (Nepal Bank Ltd, 2016), Sunrise Bank Ltd has 1,115 employees (Sunrise Bank Ltd., 2018) and Nepal Investment Bank has 948 employees (Nepal Investment Bank Ltd, 2017). Carroll & Schneier (2002) argued that with the changing human resource management dynamics and competitive market, it is important to know whether the organization is able to properly identify the strength and weakness of employees through performance appraisal practices or not. It is important because without properly identifying the weakness or strength of the employees the organization cannot help the employees to improve their performance. Similarly, it is also crucial that the measurement criteria for the appraisal practice to be consistent throughout the organization because without consistent criteria of measurement the organization cannot evaluate the employees on the same standards. This may result into employee dissatisfaction leading to poor employee performance. After identifying the performance level of the employee, the organization has to implement proper management through necessary feedback and coaching. This is the main goal of any appraisal practice. So, we need to analyze how the organization is managing the employees according to the result shown by performance appraisal results.

Many researchers have studied the relationship between Performance Appraisal Practices and Employee Performance, and have suggested that there exists significant relationship between Performance Appraisal and Employee Performance. For instance,

Iqbal, Ahmad, Haider, Batool, & Ul-ain (2013), Zayum, Aule, & Hangeior (2017) and Chetana, Mohapatra, & Pattnaik (2015) all suggested that Performance Appraisal Practices leads to improved Employee Performance. However, the study conducted by Bhurtel & Adhikari (2016) and Mainali (2010) suggested that some of the supervisors were not satisfied with the performance appraisal practices and in context of Nepalese service sector as the implementation of performance appraisal system were ineffective. According to study done by Bhurtel & Adhikari (2016) based on Council for Technical Education and Vocational Training in Nepal, supervisors perceived the existing performance appraisal system less effective as it was used merely for getting employee-promotion. This shows the gap existing in Performance appraisal practices and its implementation in developing performance in context of Nepal.

Performance appraisal can and should be linked to performance improvement process and can also be used to identify training needs and potential, agree future objectives, support a career development and solve existing problems (Brown & Benson, 2013). Performance appraisal has been viewed as an effective tool for human resource management in the organisations. However, effective appraisal system remains a challenge to the managers and employees as a whole (Chetana, Mohapatra, & Pattnaik, 2015). So in the study we try to understand whether the performance appraisal practices supports to improve the employee performance or not.

### **Hypothesis of The Study**

For the study following Hypothesis were devised which will helped us to understand and meet the research objectives.

H<sub>1</sub> : There is significant relationship between Performance Identification and Employee Performance.

H<sub>2</sub> : There is significant relationship between Performance Measurement and Employee Performance.

H<sub>3</sub> : There is significant relationship between Performance Management and Employee Performance.

### **Methodology**

#### **Data source and collection tool**

The study is based on primary source of data collected through questionnaires developed to gather information on dependant and independent variables by using Likert's Scale. The population of the study consisted of all the employees who directly works in the Banking and Financial Institutions of Nepal. The respondents were the employees from the Nepal Bank Ltd., Sunrise Commercial Bank and Nepal Investment Bank.

The research was conduct among the Banking and financial institutions of Nepal, in Kathmandu Valley. Nepal Bank Ltd. has 2,356 employees (Nepal Bank Ltd, 2016), Sunrise Bank Ltd has 1,115 employees (Sunrise Bank Ltd., 2018) and Nepal Investment Bank has 948 employees (Nepal Investment Bank Ltd, 2017). Therefore, the total population size (P) of the study is 4,419 employees from the summation of the number of

employees from the three listed Banks. With the help of Yamane's formula for finite population correction for proportions, the researcher derive the required sample size with 90% confidence level at  $\pm 10\%$  precision we get minimum 97.81 or 98 sample size. The study uses convenience sampling for survey, where 150 respondents were collected from different banking and Financial Institutions of Nepal. The collected data was treated and analyzed in the SPSS v.20 software. **Cronbach's** alpha test was conducted to analyze the reliability of the questionnaire. The study used Descriptive analysis for finding the description of the respondents and inferential analysis to identify the relationship between direct and indirect variables.

### **Model of the study**

We use multiple regression model to explain the relationship between performance appraisal practices (Performance Identification, Performance Measurement and Performance Management) and employee performance which is represented by the following equation.

$$Y = \alpha + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + e$$

where,

Y= employee performance

$\alpha$  = variable constant

X1= performance Identification

X2= performance Measurement

X3= performance Management

e = error

$\alpha_1$ ,  $\alpha_2$ ,  $\alpha_3$  represents the regression coefficients that refer to the amount with which a dependant variable increases when one of the independent variable increase while others remain constant.

### **Analysis of the data**

From convenience sampling method 150 employees from different BFI's were surveyed out of which 50% were Male respondent and 50% were Female respondent, out of which 7.33% respondents were between the age group between 18-23, 40.67% respondent were between the age group 24-29, 28.67% respondent were between the age group 30-35, 14% respondent belonged to the age group 36-40 and 9.33% respondent were in ate age group 41 and above. Similarly, 56% respondent were married, 39.33 % were single and 4.67% respondent were separated. The 50.67% of respondent were Bachelor, 6.67% respondent had studied High school and 42.67% respondent had completed Masters.

### **Correlation Analysis**

Correlation analysis is a statistical approach used to determine the level of association between two variables to explain the direction of variable if that of the original data should change or remain unchanged. Thus, the degree of correlation indicates the direction of movement between the variable.

**Table 1 Pearson's correlation Analysis**

	Performance Identification	Performance Measurement	Performance Management	Employee Performance
Performance Identification	1			
Performance Measurement	.433**	1		
Performance Management	.358**	.398**	1	
Employee Performance	.350**	.579**	.427**	1

From the above table we can confirm that there exists significant and positive relationship between Performance Identification and Employee performance at 0.01 level of significance which is .350\*\*. It means that if Performance Identification is increased then Employee Performance also increases. Similarly, there existed significant and positive relationship between Performance Measurement and Employee Performance at 0.01 level of significance which is .579\*\*. It means that if Performance Measurement increased then Employee Performance also increased. There also existed significant and positive relationship between Performance Management and Employee Performance at 0.01 level of significance which is .427\*\*. It means that if Performance Management is increased then Employee Performance also increased.

## Regression

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621 <sup>a</sup>	.385	.373	.466

a. Predictors: (Constant), MPME, MPI, MPM

Here we can see the Adjusted R Square being 0.373 which mean the independent variables just explain 37.3 percent of the organizational performance. Also the standard Error of the estimate is 0.466.

### Coefficient

Coefficients <sup>a</sup>						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.919	.145		6.338	.000
	Performance Identification	.066	.067	.073	.984	.327
	Performance Measurement	.267	.043	.461	6.137	.000
	Performance Management	.181	.061	.217	2.991	.003
a. Dependent Variable: Employee Performance						

The above table indicates that t-value of the performance identification is .984. Similarly, the t-value of the performance measurement is 6. and the t-value of the performance management is 2.991. The table indicates that higher performance Identification does not necessarily lead to higher employee performance. But it further showed that higher the performance measurement higher would be the employee performance. Similarly, the result also showed that higher the performance management higher the employee performance.

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	19.877	3	6.626	30.520	.000 <sup>b</sup>
	Residual	31.696	146	.217		
	Total	51.573	149			
a. Dependent Variable: Employee Performance						
b. Predictors: (Constant), Performance Identification, Performance Measurement and Performance Management						

The above table represents the overall regression model which was statistically significant at F = 30.520. We can say that the three independent variables or predictors

when taken together can significantly predict the Employee Performance or the dependent variable.

### Hypothesis Acceptance Table

**Table 2: Hypothesis Acceptance Table**

SN	Hypothesis	T Value	Remark
H <sub>01</sub>	Performance Identification is significantly related with Employee performance.	0.984	Reject
H <sub>02</sub>	Performance Measurement is significantly related with Employee performance.	6.137	Accept
H <sub>03</sub>	Performance management is significantly related with organizational performance.	2.991	Accept

### Major Findings of the study

#### Test of Hypothesis

H<sub>2</sub> : There is significant relationship between Performance Measurement and Employee Performance

Result: from the above table alternative hypothesis has been accepted ( $t > 2$ ). There is significant relationship between performance measurement and employee performance.

H<sub>3</sub> : There is significant relationship between Performance Management and Employee Performance

Result: From above table alternative hypothesis has been accepted ( $t > 2$ ). There is significant relationship between performance management and employee performance.

H<sub>1</sub> : There is significant relationship between Performance Identification and Employee Performance

Result: from the above table alternative hypothesis has been rejected ( $t < 2$ ). There is no significant relationship between performance Identification and employee performance.

### Summary and Conclusion

Performance appraisal practices helps the organization to increase the performance of the employees in terms of employee productivity, employee turnover, employee promotion and employee training. Productive employees are valuable assets to the organization, it is very crucial for the organization to develop employee retention strategy to retain such productive employees so that overall performance of the employees are maintained in the organization. in order to retain such employees, it is important to reward them for their performance, either in monetary term or through promotion. Performance of the employees increases when they are promoted, similarly providing training to the employees on the basis of performance appraisal so that specific weakness of employees can be overcome results to increased performance of the employees. After the data analysis the result generated reflects the impact of performance appraisal practices on employee performance. The performance appraisal practices used in the Banks of Kathmandu have properly utilized their Performance Appraisal system to increase the performance of their



employees. But only for the activities that the performance appraisals have identified. The employees working in the Banking and financial institution of Kathmandu Valley regards performance appraisal as a medium to improve their performance.

The basic purpose of an appraisal practice should be to improve the performance of employees that will lead towards the organization success. The appraisal practice must deeply observe the employees and must recognize that employees in term of human resource are the most important resource for the organization. It is very important for the organization to increase the employee performance in order to increase the productivity of the organization. From the study we found that the Banking system focused well on employee performance appraisal system. The instruments used to measure the employee performance seems to be consistent throughout the organization. The employees feel that the appraisal measurement practice is fair in their organization, and the organization are also utilizing the output from the measurement to increase the performance of the employees. Similarly, we can see that the banking and financial institutions are able to manage their employee's performance properly through the result obtained from performance appraisal practices.

The Performance management includes training and development, promotion, feedback and other techniques through which the organization can manage their employees to obtain organizational goal. However, we find that even after having positive correlation with Employee Performance, Performance identification still has low T value, which implements that it does not have significant and positive relation with Employee performance. It means that even though the Banking and financial institution are able to properly manage their employees through efficient measurement tools, they still are unable to properly identify the strength or weakness of employees, so they cannot properly improve the performance of employees on the basis of their personal strength and weakness. The organization is only focusing on developing the skills which are required for the organization function, and do not focus on individual growth in strength or improve their weakness.

If the organization is able to use all these three variables during the performance appraisal, then the organization can improve or elevate the performance of the employee. Therefore, if Performance Appraisal Practice is successfully implemented in the banks of Nepal, the employees will be able to identify how good they are performing and what are expected out of them in future in terms of their performance and effort. The employees working in the Banking and financial institution of Kathmandu Valley regards performance appraisal as a medium to improve their performance. For instance, research done by (Iqbal, Ahmad, Haider, Batool, & Ul-ain, 2013), (Nanggala, 2015) the relation between Performance appraisal and employee's performance has been confirmed too.

The Central Bank is responsible for developing banking and financial policy in Nepal. Therefore, the Central Bank can refer this study and include Performance appraisal practices in their policy and direct the commercial banks and financial institution to maintain standard Performance Appraisal Practices and categorize the training and promotion criteria so that employees are evaluated and treated fairly in order to improve the performance of the employees. The Banking and Financial Institution can identify the importance of Performance Appraisal Practices through this study. The Banking and





Financial Institutions should give priority to fair appraisal practice in order to motivate the employees to improve their performance. The Banking and financial Institution should focus on proper performance management by focusing on proper feedback, adequate training and fair promotion opportunities in order to elevate the performance of their employees. The Human Resource Manager should emphasis on implementing consistent performance measurement criteria so that the organization can effectively measure the performance of employees and avoid bias decision in order to improve the Employees Performance. If Performance Appraisal Practices is successfully used in the banks of Nepal, the employees would be able to know how good they are performing and what is expected of them in terms of their performance and effort. The study can provide benefit to other division of Nepal's Bank (both public and private) if they want to improve the employee performance through performance appraisal practices.



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