EMPLOYEES' PERCEPTION OF PERFORMANCE APPRAISAL AND ITS IMPACT ON TURNOVER INTENTIONS: A STUDY OF IT FIRMS IN MALAYSIA

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Abstract –

Purpose: This study analyzed employees' satisfaction on the accuracy of performance appraisal and fairness and its turnover intentions.
Design/methodology/approach: Data were collected from 170 employees of companies in the IT industry, and the data were analyzed using the structural equation modeling (AMOS) technique.
Findings: The results confirmed that distributive justice significantly contribute towards the prediction of performance appraisal satisfaction, followed by supervisor-employee relationship, and feedback and coaching accuracy. Employees' performance appraisal satisfaction, procedural justice, and informational justice are negatively associated with turnover intentions, where lower employee satisfaction levels resulted in higher turnover intentions, and vice versa.
Originality/value: This study contributes to the knowledge on how performance appraisal is perceived from the perspective of employees' and the significance of the factors contributing to its effectiveness and employees turnover intention.

Keywords - Performance Appraisal, Accuracy, Fairness, Turnover Intentions, IT firms, Employees

I. INTRODUCTION

Globally, the information technology (IT) sectorcontinue to growamid economic uncertainty and stagnation (MichaelPage, 2017). This is inevitable due to the digital economy and innovation boom, both marking thestart of the next industrial revolution. Inthe context of Malaysia, the demand forskilled IT workers is expected due to the increase in the need for information related processing and services acrossmultiple industries (Dehsi, 2017).The future looks promising in the IT sector, but recently, it faces high turnovers.According to a report written by the global human resource agency (2017), Malaysia,at ~13%, ranks second highest in terms of voluntarily turnover rates in the Asia Pacific region for its IT sector. Poor appraisal and career progression are the top factors causing people to leave their jobs (MichealPage, 2015). This increasing turnover rates prompted researchers to determine the effectiveness ofperformance appraisals amongst IT workers in Malaysia andidentify factors that contribute to the effectiveness of performance appraisals among IT workers in Malaysia (Poon, 2004; Vignaswaran, 2008).

Evidence from the Malaysian IT industry confirmed the presence of many challenges vis-à-vis theperformance appraisal process, one of which is the frequent changes in organizational structure and its corresponding reporting system. In some companies, organizational shuffle is frequent enough that supervisors might be given new responsibilities a few times annually. This eventually influence the entire performance appraisal process, due to the compromised credibility of the evaluators. Also, the organizational structure of IT firms could be located worldwide, where managers and respective subordinates are posted to different locations, rendering the performance appraisal process more difficult due to thelimited communication and face-to-face interactions between supervisors and employees.

Working in international firms–taking into account the fact that managers and subordinates are located in different geographical locations, andthe goal setting practice create another challenge for performance appraisal, as supervisors and employees lack the sense of mutual agreement and understanding in terms of what is expected. This is also related to the opacity of the performance appraisal process, as managers and employees lack a common and shared understanding of the process. The primary concern around this area is the lack of transparency of how the whole process works. Many employees were found to be dissatisfied after the appraisal outcome was revealed, as they feel that the salary and promotion decisions are unrelated to performance. This is because employees were not fully informed at the beginning of the appraisal cycle on the parameters they would be measured up against.

In addition to the aforementioned evidence, within an IT organization, employees are often leveraged across multiple projects to serve various clients, and hence,

their work performance should be evaluated with respect to specific projects they were assigned to instead ofbeing based on isolated and recent performance(s)(Mishra &Farooqi, 2013). Another concern is the lack of ongoing and continuous feedback(s), which is needed for the employees to highlight their strengths and areas of improvement. More often than not, the appraisal communication takes place only when required, which is typically at the end of the financial cycle, and usually, the strengths and weaknesses of the employees are not emphasized,with no associated coaching or development steps accompanying these evaluations. Such a situation resulted in demotivated employees, which culminated in them quitting.

Evidences from previous research on performance appraisals practice confirmed that performance appraisal is one of the most important processes in human resource management for the evaluation of employees (Sudarsan, 2009). The general consensus is to improve performanceinitially at the level of an individual employee, and ultimately, at the organizational level (DeNisi, 2006). It also helps organizations retain talent and encourage increasedproductivity (Mishra, 2014). The utility and benefit of performance appraisal as a decision making tool for managersis reliant upon its ability to provide accurate measures of employees' work performance (Poon, 2004). The effectiveness of a performance appraisal system is determined by employee perception vis-à-vis its accuracy and fairness (Mullins, 2005; Luthra and Jain, 2012).

Assessing performance appraisal practices and factors affecting employees' satisfaction and turnover intention are importantfor every organization, as losing an employee would mean that the company lost an asset (Chen and Huang, 2009).Research indicated that the effectiveness of performance appraisal practice can be measured via employees' perception towards its fairness and accuracy. Taking this into account, assessing the fairness of a performance appraisal system by applying the concept of organizational justice forms the staple of many research (Skarlicki and Folger, 1997; Colquitt, 2001; Erdogan, 2002; Robbins and Judge, 2007; Thurston and McNall, 2010). Most investigated four justice elements collectively representing the fairness of an appraisal system, such as procedural justice, distributive justice, interpersonal justice, and informational justice.Selvarajan and Cloninger (2012) measured the accuracy of the performance appraisal practice, and pointed out that workers are prone to trust an accurate performance appraisal, and will portray favorable attitudes towards the performance appraisal. Researchers investigated four accuracy elements, such as performance planning, feedback and coaching, performance review, and outcome accuracy, all of which were examined within different contexts and settings (Mishra, 2014; Sharma et al., 2016).

Previous research highlighted the relationship between employees and supervisorsas important due to the fact that it contributes towards shaping an effective performance appraisal. The overall relationship between the evaluators and evaluatees and the amount of trust subordinatesplace in their supervisorsis probably the most significant predictor of appraisal satisfaction (Barr et al., 1985). Some researchers measured the aforementioned relationship by applying the leader-member exchange (LMX) theory (Elicker et al., 2006). The LMX perspective characterizes the supervisor-subordinate relationship as a social exchange process,which focuses on the quality of the relationship (Graen and Uhl-Bien, 1995). This study aims to explore how employees (in IT industry) view the performance appraisal that is in place, their satisfaction, and its effect on turnover intentions. We posed three research questions: (1) What are the effects of employee's perceived fairness and accuracy on their satisfaction towards performance appraisal practice and turnover intention,(2) What are the effects of supervisor-employee relationship on the employees' performance appraisal satisfaction, and (3) How do employees' satisfaction towards the existing performance appraisal practice, procedural justice, and informational justiceimpact their turnover intention.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Background of the study

Organizational justice was introduced by Greenberg in 1987. It stemmed from the equity theory (Adams, 1965).Dusterhoff et al. (2013) investigated the effects of organizational justice on performance appraisal by applying a moral justice perspective. This was done on the basis of Trevino's (1986) moral cognition model, which is a follow up of Kohlberg's model. Trevino proposed that the individual's stage of moral development determines the individual's moral cognitions. Over the years, the organizational justice concept has been developed by Greenberg (1990) and other researchers, such as Colquitt (2001) and Thurston and McNall (2010).

Based on the aforementioned literature and for the purpose of this research, satisfaction towards performance appraisal will be measured in the context of fairness, accuracy, and the relationship between employee and supervisor,all of which will be further elucidated in the following sections.

2.1.1Performance Appraisal satisfaction

Performance appraisal is a process where a manager or supervisor examines and evaluates the

performance of an employee by comparing it to predefined standards and follow up to record these results, eventually using them to provide feedback to employeesto help them improve, or grant rewards and promotions (Pickette, 2003). According to Lawler (2003), the terms "performance management" and "appraisal" are often used interchangeably, while Biron et al. (2011) stated these definitions suggest that appraisal is an important element of a performance management system (PMS). Thus, the approach used to explore the effectiveness of a PMS involves understanding employees' perceptions on appraisals (Selden and Sowa, 2011).The appraisal process can be used to provide valuable information to employers, while also negatively/positively influencing employees, depending on the outcome. Outcomes could well result in extended conflicts between supervisors and employees (Lawler, 1994). In such situations, employees who are the recipients of performance feedbacksare often dissatisfied with how the performance review was conducted, and subsequently reject the feedbacks/results they received (Elicker et al, 2006).

2.1.2Perceived accuracy

Perceived accuracy is considered to be one of the important aspects for evaluating the satisfaction of employees'vis-à-vis the performance appraisal system (Wood and Marshall, 2008). Appraisals' accuracy is relative, and determined by individual perceptions (Tsai and Wang, 2013). The level of accuracy/inaccuracy of the appraisal system relies on the employee's perception and awareness of the process and results of performance appraisals (Boswell and Boudreau, 2000).The main reactions that can be assessed in this case is the accuracy of the system and whether or not they feel that the assessment is/was fair.

Based on Mishra (2014) and Sharma et al. (2016), we measured employees' perception of the accuracy of performance appraisal practices in the IT industry, and assumed that employees' perception of performance planning accuracy, feedback and coaching accuracy, and outcome accuracy influence employees' performance appraisal satisfaction. We did not measure theaccuracy of the performance review, as evidencesconfirmed that IT workers in Malaysia are unaware of their organizations' planned goals. With this rationale, the following hypotheses were developed:

H1: Employee perception of feedback and coaching accuracy will positively influence employees' performance appraisal satisfaction.

H2: Employee perception of outcome accuracy will positively influence employees' performance appraisal satisfaction.

H3: Employee perception of performance planning accuracy will positively influence employees' performance appraisal satisfaction.

2.1.3Perceived fairness

Fairness is an aspect of performance appraisal and is one of the key predictors of employees' behaviors. Employees will reciprocate via satisfaction and commitment if they feel that they are being treated fairly (Sudin, 2011).

Warokka et al. (2012) and other organizational justice researchers divided the concept of fairness into three principlesof commonly accepted justice elements. The first is "distributive justice", which emphasizes the fairness of the overall outcome(s) of a particular decision. Second is the "procedural justice", which concerns the fairness of the processes leading to an outcome. The majority of research conducted in the field of organization justice for the past 20 years focused on these areas, and regard them as the foundation for measuring organizational justice (Byrne and Cropanzano, 2001). A third type of justice factor often referred to by other researchers is "interactional justice". This concept was introduced as a separate dimension to represent the interpersonal aspect of procedural justice, and it plays a distinct role alongside procedural and distributive justices (Skarlicki and Folger, 1997).

Relative to these findings, and for the purpose of this research, fairness in appraisal will be assessed from the organizational justice perspective, but encompassing only procedural, distributive, and informational justices. The interpersonal justice factor is measured by the supervisor-employee relationship (LMX) measurement. As per previous research, we hypothesize that:

H4: Employee perception of distributive justice will positively influence employees' performance appraisal satisfaction.

H5: Supervisor employee relationship will positively influence employees' performance appraisal satisfaction.

H6: Employee perception of procedural justice will negatively influence employees' turnover intention.

H7: Employee perception of informational justice will negatively influence employees' turnover intention.

2.1.4 Performance appraisal and turnover intention

Turnover intention is defined as employees' plan to either to stay or leave an organization they are working for due to dissatisfaction(s) to pursue other opportunities (Bekele et. al, 2014). According to Glissmeyer et al. (2008), turnover intention is an

attitudinal factor affecting employee intent to quit an organization. Vigoda (2000) noted that in cases where employees feel that they are unfairly treated, they are likely to respond by initially changing their job attitude, followed by more retaliatory responses such as quitting in later stages.

H8: Employee performance appraisal satisfaction negatively influence turnover intentions.

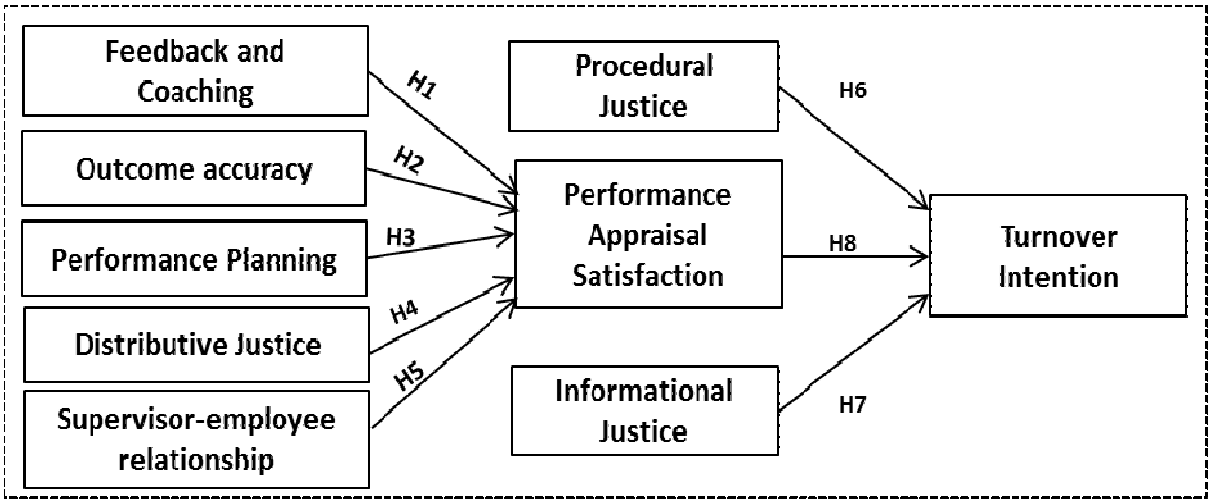


Figure 1: Research Model

III. MATERIAL AND METHODS

3.1 Measurement

Variable measurements were adapted from that reported by other researchers. The measure of employees' satisfaction with performance appraisal was adapted from Vignaswaran (2008), which was based on Meyer and Smith (2000). The measure of perceived accuracy (sixteen items) was adopted from Mishra (2014). Three items measure performance planning, three items measure feedback and coaching, and three items measure performance review and outcome in this case. Perceived fairness was adopted from Sharma et al. (2016),containing four justice factors, including procedural justice, distributive justice, interpersonal justice, and informational justice. Interpersonal justice was replaced by another variable in this research, which is supervisor-employee relationship (LMX),since the questions are more appropriate in the context of this research. Therefore, this study measure three justice factors, out of which five items were used to measure procedural justice, three items measure distributive justice, and four items measure informational justice. The relationship between supervisor and employee is measured on the basis of the LMX theory, with seven items adapted from Dusterhoff et al. (2013) and Graen and Uhl-Bien (1995). Turnover intentions (4 items) were adopted from Vignaswaran (2008) and Meyer and Smith(2000). All of the items were measured on a 5-point Likert scale, from Strongly Disagree (1) to Strongly Agree (5).

3.2 Participants and procedure

We used purposive sampling to collect data from 260 employees belonging to organizations associated with the information technology (IT) industry that underwent a cycle of appraisal process. The questionnaire was distributed in hardcopy forms, survey links via emails, and a mobile messenger application. A total of 100 hardcopy questionnaires were sent to two IT companies, and 93 were returned. One of the companies is the one the researcher is currently attached to, while the other is a company located within the same area, and is a competitor to the first company. Both provide integrated IT solutions and services to enterprises in the private and public sectors. Evidences confirmed that employees take up job offers from both companies when appropriate, due to the fact that they operate within the same service industry, assign works of similar nature, and is geographically convenient.

IV. RESULTS

The measurements were adopted from previous studies, therefore, we conducted the confirmatory factor analysis (CFA) using Amos (18) to confirm the items and evaluate the measurement model while examining the relationship between the independent and dependent variables and testing the hypotheses using the structural model. The results of the measurement model reported an acceptable level, and the model fit indices: Chi-square ($\chi 2$) value is 821.099, df= 459, and the $\chi 2$ /df = 1.789, the Comparative Fit Index (CFI) = 0.916, the Tucker Lewis Index (TLI) = 0.904, goodness of fit (GFI) = 0.788 and Root Mean Square Error of Approximation (RMSEA) = 0.068, were all within acceptable levels (Hair et al., 2006). We examined the structural model and relationship between feedback and coaching, outcome accuracy, performance planning, distributive

justice, and relationship with supervisor towards performance appraisal satisfaction, which in turn affects employees' job turnover intention (Table 1). Procedural justice and information justice were other predictors of employees' job turnover intention. The final model with chi-square 623.380, (χ^2/df = 1.551), df= 402, GFI = 0.823; TLI = 0. 938; CFI = 0.946; RMSEA = 0.057 indicated an acceptable fit based on the criteria suggested by Hair et al. (2006).

Hypotheses			β	S.E.	C.R.	P
H1	Feedback and coaching →	Appraisal Satisfaction	0.198	0.092	2.178	0.029*
H2	Outcome accuracy →	Appraisal Satisfaction	0.176	0.057	2.164	0.030*
H3	Performance planning →	Appraisal Satisfaction	0.017	0.112	-0.189	0.850
H4	Distributive justice →	Appraisal Satisfaction	0.332	0.084	3.858	0.000
H5	Supervisor-employee relationship →	Appraisal Satisfaction	0.237	0.105	2.487	0.013
H6	Procedural justice →	Turnover Intention	-0.212	0.163	-2.050	0.040*
H7	Information justice →	Turnover Intention	-0.235	0.133	-2.296	0.022*
H8	Performance appraisal satisfaction →	Turnover Intention	-0.285	0.120	-2.860	0.004
β: Standardized Regression Weight; S.E.: Standardized Error; C.R.: Critical Ratio; *p< 0.05,						

Table 1: Standardized Regression Weights for Structural Model and Hypotheses Testing

Testing the relationship between independent and dependent variables (see Table 3) confirmed that the main factors affecting employees appraisal satisfaction were distributive justice (β= 0.332, P= 0.000) and relationship with supervisor (β= 0.237, P= 0.013), feedback and coaching (β= 0.198, P= 0.029), and outcome accuracy (β= 0.176, P= 0.030), supporting H4, H5, H1, and H2. Performance planning was nota significant factor influencing employees' appraisal satisfactionand the effect was not strong relative to the other factors. The R Square value showed that feedback and coaching, outcome accuracy, performance planning, distributive justice, and relationship with supervisor predicts ~62% of the variance in employees' appraisal satisfaction. The effect of employee appraisal satisfaction (β= -0.285, P= 0.004), information justice (β= 0.235, P= 0.022), and procedural justice (β= -0.212, P= 0.040) were negative and significant towards employees' job turnover, thus supporting H6, H7, and H8. Appraisal satisfaction, information justice, and procedural justice predicted~38.5% of the variance in the job turnover intention.

V. DISCUSSIONS

The aim of this study was to measure the effect of employees' perception of performance appraisals accuracy and fairness on their satisfaction and turnover intentions. The findings confirmed that feedback and coaching, outcome accuracy, distributive justice, and supervisor-employee relationship significantly affect employees' performance appraisals satisfaction. Procedural justice, information justice, and performance appraisals satisfaction are the three predictors of employee turnover intention, with a negative effect. The findings revealed that the two dimensions of perceived accuracy (feedback and coaching and outcome accuracy) positively influence satisfaction with performance appraisal, which is consistent with Selvarajan and Cloninger (2012). This is also supported by Lira (2014), who confirmed that accurate performance appraisal practices from the perspective of employees could lead to higher satisfaction towards performance appraisal. The effect of performance planning was not significant towards the performance appraisals satisfaction, which differed from that of a previous study. A possible explanation is that the relationship is not significant because most IT companies are international, and goals and objectives are normally planned by headquarters, which means that the IT workers lack a clear idea of the planning. The gap seems to be the lack of clarity about the performance appraisal process, where managers and employees lack a common and shared understanding of the process. Therefore, employees should be clearly informed at the beginning of the performance appraisal cycle on the parameters they will be measured against.

In terms of the results for feedback and coaching, after sharing them with a few of the respondents, it was found that the employees were generally unsatisfied with the way their organization provide them with feedbacks. Another important concern among employees is that their strengths/weaknesses are not highlighted during the appraisal session. Some of the employees commented that at the end of the work cycle, they are unable to determine what they did wrong/right throughout the year. As a result of this, they are unable to improve on their work by the next cycle, which basically leads to minimal to little progress in their personal or career growths. Furthermore, there are no development plans, necessary coaching, or training given to employees for them to improve/perform better. In an industry such as IT, where competition is dictated by the skill set of the employees, it is important that theybe well

equipped with knowledge of new features and technological advancements, which would allow them to keep up with market demand. The results of the performance appraisal will be of no significant value unless such concerns are addressed. Findings related to the measure of accuracy also revealed that employees are dissatisfied with the timeliness of the appraisal feedbacks. Employees stated that work pressure and project deadlines are increasing time gaps between performance discussions with the managers, as one side of either party is perennially preoccupied. Moreover, managers do not take enough initiative to engage employees unless they deem it to be absolutely necessary. In some cases shared by the employees, it was found that managers only approach them towards the deadline of appraisals set by the organization, with no discussion or exchange of inputs taking place throughout the year. It is important that employees are provided with ongoing feedback at regular intervals, as this will allow them to improve at work, and employees will be aware that the management is keeping track of their performance(s).

The findings from this study also indicated that perceived fairness (distributive justice and supervisor-employee relationship) positively influences satisfaction with performance appraisal. This relationship is supported by Selvarajan and Cloninger (2012), who stated that in addition to perceived accuracy, perceived fairness could also lead to higher levels of employee appraisal satisfaction. Pichler (2012) and Duster h off et al.(2013) indicated that there is a direct and significant relationship between leader-member exchange and appraisal satisfaction. Discussing the results of the study with IT workers show that employees are of the opinion that the appraisal is not conducted fairly, with most agreeing with the fact that they are able to express their views during the appraisal process, but are unable to influence the decisions being made after the fact. In terms of the employees' relationship with their supervisors, most reported having an average relationship. Many stated that their supervisors do not understand their needs and would not help them handle a difficult situation. This shows that there is still room for improvement in terms of developing a better and more understanding relationship between employees and supervisors. This was also confirmed using comments from some of the employees stating that they have a good working relationship with their supervisors and were involved in designing their performance plan, however, they are dissatisfied with the outcomes of the appraisal and how the organization manages it.

The findings of this study confirmed that satisfaction with performance appraisal, procedural justice, and information justice negatively influence turnover intentions. Vignaswaran's (2008) andVigoda's (2000) stated that when employees feel unfairly treated, they are likely to react by initially changing their job attitude, and eventually resorting to more significant actions such as resigning. Discussion with employees confirmed that many want to leave their current organizations for better opportunities. This satisfies and validates the inverse relationship between performance appraisal satisfaction and turnover intentions. Some employees with a few years' experience pointed out that they realized after few years that they have not achieved what they wanted to in terms of increase in pay and career growth, despite their above average performance. They feel that the reward(s) is not linked to their ratings, nor does it seem reasonable to expect as much, which subsequently create the intention to leave an organization.

The negative relationship between procedural justice and informational justice with turnover intention confirmed that when employees are unable to express their views and feelings, influence decision making, or think that the procedures are not free of bias, they will not want to stay with the organization. They also believed that their organization is not good at recognizing excellent performance. Based on the responses, most agree that the outcomes do not reflect their effort, stating that it is not based on accurate information and they are unable to appeal the outcome. As a result of this, the employees were found to be dissatisfied and demotivated after the appraisal process, as most feel that the pay and promotion tied to the review outcome is inconsistent with that of their efforts and contributions. Employees also feel that the procedures are not consistently applied and biased. Some employees pointed out that politics are involved when it comes to appraisal, while bias results infavored employees being recipients of better rewards and promotions relative to their other (more deserving) colleagues.

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