

Impact of Evaluation System on Organizational Performance: An Empirical Investigation on Banking Sector

Kanwal Aqsa

Research Scholar, Hamdard Institute of Management Sciences, Karachi

Abstract

From the last past decade every organization is struggling for its survival and growth to have competitive edge. This study is conducted to analyze and investigate the impact of evaluation system on organizational performance. This involves discovering the relationship between evaluation system and organizational performance as now a day with the increase in organizations are focusing on managing and sustaining its performance by taking different measures. The research is conducted on banking sector and this study focuses on primary data which has been collected through questionnaire with a five point likert scale. The study used convenience sampling technique to confine the response of bankers. The data that has been collected is analyzed and assessed through statistical package for social sciences (SPSS).the results of the data has been examined through by each and every step and I have found the results. This study concluded that there is insignificant relationship between organizational performance and evaluation system that means there are many factors that help the organization to improve its performance and profitability but not the evaluation system in particular because there are less chances of factual results in different evaluation systems used by the organizations and many organizations conduct it just as a formality and afterwards and no follow-up is there regarding the evaluation system results so the organizations need to focus on purely those factors that has a significant impact on its performance and profitability and try to work on those factors for its growth and attainment of its goals.

Keywords: Evaluation system, Organizational performance, performance appraisal, behaviorally anchored rating scale

1. Introduction

1.1 Background of the Study

In today's time organizations are in greater pressure regarding its employee performance as well as gaining a competitive edge over its competitors. Every organization business management is based on its performance that how it manages the performance of its employees and evaluate the performance.

The world of performance evaluation is gradually changing from what it was just a decade ago. As management matters to performance and effectiveness, and that performance is the ultimate goal of public management systems and actions," (Moynihan & Pandey, 2005) that is why it's necessary to keenly focus on it. The proper evaluation of employees help in turning good talent into great talent. While few companies are now focusing on adapting new trends that is focusing on evaluating through different mediums such as performance appraisal, 360 degree feedback. There are many reasons due to which the lack of performance occurs such as less attention has been paid to related issues, notably sickness absence management, lack of evaluation and monitoring (e.g. Taylor *et al*, 2010). Companies try to adapt new trends of performance evaluation so that it can survive in this competitive world where everyone is running towards success. It is necessary to cope up with the changes that have occurred (Thompson, 2012) and that is why Organizations should focus on frequent conversation with employees and evaluate the performance through it because it will help them to keep aware of staff members need, work and abilities and how they are performing. The performance can be evaluated through performance appraisal, 360 degree feedback, BARS etc.

1.2 Research Objectives

By conducting this research, researcher will try to explore

1. The evaluation system now a day's organization is using for managing its performance as world is changing and people are trying to adapt change to survive in this competitive world in which everyone is running towards success.
2. What strategies and ways Organization is using for managing performance of its key personnel.
3. To explain them about how to better manage performance through evaluation and what key indicators will be beneficial for them.
4. To provide understanding with the relationship between performance evaluation system and performance and output of organization.

1.3 Problem Statement

In today's business world it's really important for organizations to manage its performance by using its resources properly. The key personnel of organization is a necessary source of organization in achieving its objectives so

it's really important to evaluate their performance by using right and efficient system and adapting new ways of examining their employees performance to have a positive impact on their performance that will lead to an outstanding performance of organization. Organizations need to know, realize and understand the importance of evaluation system that will help them in better performance and also adaptation of methods of evaluation will help them in managing their performance more effectively so this study is aimed to examine the impact of evaluation system on organizational performance.

1.4 Hypothesis

H0: There is no impact of evaluation system on organizational performance.

1.5 Scope of the study

This study is tasked to investigate the impact of evaluation system on the performance of the organization. It will help the organization in understanding and adapting the new trends of evaluation. It is bounded to banking sector.

1.6 Theoretical framework

Independent variable

Evaluation System

- Performance Appraisal
- 360 degree feedback
- Behaviorally anchored rating scales (BARS)

Dependent variable

Organizational Performance

- Profitability
- Output
- Growth

The above theoretical framework explains that organizational performance is a dependent variable whereas evaluation system is an independent variable that how the organization evaluates the performance of its key personnel. Organizational performance includes profitability, output, growth etc which indicates the overall performance of organization. On the other hand different evaluation methods are used by organization such as performance appraisal, 360 degree feedback; BARS (behaviorally anchored rating scale etc. This research is conducted to find put the relationship between organizational performance and evaluation system.

2. Literature Review

According to (Armstrong and Baron, 1998) “managing the performance of an organization is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors”. It is already known that organizational performance is directly linked with its key personnel performance. As per Kotter and Heskett (1992) an effective performance of an organization requires an equal participation of manager and other key employees of organization. Evaluation system is really necessary for an organization to adapt in order to monitor and maintain its performance. Verweire and Van den Berghe (2004) define organizational performance as “the measurement and reporting system that quantifies the degree to which managers achieve their objectives”.

The scope and method of evaluation changes and varies between organizations with a variation between qualitative and quantitative forms (Beardwell and Claydon, 2010). There are different types of evaluation system such as performance appraisal, 360 degree feedback, balanced scorecard, BARS etc. firstly the method that was used for evaluation was the balanced scorecard which was based on degree of achievement a person have with an organizational strategic goals the balanced scorecard keep companies looking and moving forward instead of backward (Kaplan and Norton 1996).a properly constructed balanced scorecard can help the management with an ideal tool in reacting to a difficult business environment and also support the organization towards better performance (Gupta,Sarkar and Samantha, 2004) The second popular evaluation system is 360 degree feedback which is used by different organizations (Newbold 2008) and although is used recently.

The success of any organization depends on the quality and characteristics of its employees. Organizations are unable to achieve its goals and objectives without them. The performance appraisal tool is used by the organizations to evaluate the performance of employees, it deals with what needs to be done by the people in the organization in order to meet the purpose and objective of the job (Armstrong, 2006) 360 degree feedback is also used by the organizations to see and find out the strength and weakness of employees for his further guidance.

The significant purpose of such evaluations is that the organizations can lead towards continuous improvement in its performance and growth (Armstrong 2004). Performance appraisal is a kind of traditional and straight forward method in which the manager reviews the performance of its subordinates on annual basis.

(Bach 2005).Some authors felt performance appraisal as having a limited organizational impact. Sometimes the failure of organization in managing its performance is because organizations don't focus in evaluation process properly and also the other reason is the system they are using for the assessment of employees. It needs o focus as much time on developing people as by evaluating them (Randall, 2006). A proper evaluation system is necessary for monitoring performance. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used so it's important to think critically and use all the mediums and sources effectively and efficiently for managing the performance. Both managers and employees should recognize the importance of performance evaluation (Barr; 1993).

Performance evaluation can play a valuable role in effecting the grand negotiation between the needs of the individual and needs of the organization (Zedeck; 1983). Performance evaluation is defined as a process of assessing and communicating with employees in how they can improve their performances. This not just allows them to evaluate their own performances, also affects their efforts and futures (Byars and Rue, 2008). A fair and effective performance evaluation system is based on consistent standards of practice (Gunzenhauser, and Fielding, 2010).according to experts; an effective performance evaluation system has a great deal of advantages to offer organizations and employees (Gary et al., 1996). It is really important for the organizations to understand the importance of evaluation system and its impact on overall organizational productivity and growth.

3. Methodology

3.1 Data and variables

This research project deals with primary data to be collected. Data is collected by using questionnaire.

Dependent variable: Organizational performance

Independent variable: Evaluation system

3.2 Sampling technique

In this research the convenience sampling technique is used by giving questionnaire to people who were easily accessible in banking sector.

The questionnaires were distributed in the following banks:

#	Organization name
1	Bank Al Habib
2	Silk Bank
3	Faysal Bank
4	MCB Bank
5	Allied Bank
6	Habib Bank Limited
7	Dubai Islamic Bank
8	Meezan Bank
9	Sindh Bank
10	Summit Bank
11	United Bank Limited
12	Bank Alfalah

3.3 Sample size

The sample size of 12 questionnaires was used in the study. The total number of questionnaires given and received back was equal i.e. 12

3.4 Model

The aim of the research is to find out the impact of evaluation system on organizational performance that is why Regression Model is used in which evaluation system is an independent variable X and organizational performance is a dependent variable Y.

4. Results and Discussion

4.1 Reliability Statistics

Cronbach's Alpha	N of Items
.713	8

Cronbach's alpha is used to check the reliability of the questionnaire. Its lenient cut off is 0.6 and strict cut off is 0.7.As we are getting 0.7, this shows that the questionnaire is reliable.

4.2 Correlation

Correlations

		ES	OP
ES	Pearson Correlation	1	.418
	Sig. (2-tailed)		.177
	N	12	12
OP	Pearson Correlation	.418	1
	Sig. (2-tailed)	.177	
	N	12	12

Correlation tells us about the interdependence between two variables. Here we are getting 41.8% correlation between evaluation system and organizational performance which is insignificant at 1% as sig value is more than 0.05, hence the evaluation system and organizational performance are not interdependent on each other.

4.3 Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.418 ^a	.175	.092	.46364

a. Predictors: (Constant), ES

R square is also known as coefficient of determination which shows goodness of fit of the model. Here it is 17.5 % which means changes in evaluation system dictates 17.5% changes in organizational performance. The difference between R square and adjusted R square is more than 5% which shows a sample error.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.455	1	.455	2.115	.177 ^b
	Residual	2.150	10	.215		
	Total	2.604	11			

a. Dependent Variable: OP

b. Predictors: (Constant), ES

Anova shows significance of the model and significance of goodness of fit. The cutoff of F is 4 which shows the significance of F (equality of variance). here F statistic obtained is 2.115 which is less than 4, this shows that it is insignificant and sig value is also greater than 0.05 which shows the it is insignificant.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	2.422	1.150		2.106	.061
	ES	.408	.280	.418	1.454	.177

a. Dependent Variable: OP

The above table shows the impact of evaluation system on organizational performance. The coefficient of evaluation system is positive that is 0.4908 which suggest that there is direct relationship between evaluation system and organizational performance. If evaluation system increase by one unit, organizational performance will also increase by 1unit. this relationship is statistically insignificant as t value is 1.4 which is less than two this insignificance is also shown by sig value which is greater than 0.05 so we conclude that it is insignificant.

4.4 Discussion

The aim of this research is to determine the impact of devaluation system on organizational performance. In order to have a better understanding and concept of this study and to assess the evaluation system impact on organizational performance, primary data was collected by floating questionnaire through convenience sampling and the conclusion of this research was drawn through these questionnaires. The result findings show that evaluation system has no interdependence on each other and both have insignificant relationship with each other which means that if one change the other won't change, it will remain same.

5. Conclusion and Recommendations

5.1 Conclusion

By considering the data analysis and result findings of the study, the hypothesis H0 has been accepted because of the reason that according to the results there is insignificant relationship between evaluation system and organizational performance.

Every organization has its own evaluation system that it follows to evaluate the performance of its employees. It's not necessary that after evaluating their performance, the organization provide them with a proper feedback. Organizational performance is based on the satisfaction of employees with the organization, the employees want discrimination free environment that more of the organizations fail to provide them. There are many factors that may cause the organizational performance but not evaluation system as it's not necessary that every organization don't implement the results of evaluation system in their organization, they just conduct it as a formality so we can conclude that there is no impact of evaluation system on organizational performance because organizations can't rely on evaluation system because the chances of error during conduction of evaluation system is high.

5.2 Recommendations

After conducting the study, analysis and interpretation, A few recommendations are there that needs to be kept in mind. First of all the organizations for the enhancement of its performance need to satisfy its key personnel by providing them smooth environment and motivate them on their performance so that it will enhance the overall performance and profitability of the organization. Discrimination free environment encourages the employees to show positivity towards fulfilling organizational goals and lead the organization towards success. purely relying on evaluation system regarding the performance of organization is not an intelligent practice because sometimes organizations only deal it as a formality rather than carefully conducting it so organizations need to focus on all those factors that can enhance its performance with little bit chances of error. The organizations need to find out the factors that have a significant impact on organizational performance so that it will help them to focus on those factors and enhance its performance, overall profitability, growth and output of the organization.

6. References

- Ali, s. B. (2012). The Effect of Employees' Performance Appraisal. *International Journal of Academic Research in Business and Social Sciences* , 2, 168.
- Bakhtawar, K. A. (2014). impact of appraisal system on employee performance: a comparison of permanent and contractual employees of pakistan. *European Scientific Journal* , 1, 109.
- Malik Shaharyar^{1*}, M. A. (2014). Impact of Performance Appraisal on Employee Performance. *journal of Resources Development and Management* , 3, 24.
- Zvavahera, P. (n.d.). An evaluation of the effectiveness of performance management systems on service delivery in the Zimbabwean civil service. *Journal of Management and Marketing Research* , 8.
- gupta, d. u. (2012). efficacy of performance management system: an empirical study at icici bank. *international journal of advanced research in management and social sciences* , 1, 225.
- khan, m. f. (2013). role of performance appraisal system on employees motivation. *iosr journal of business and management (iosr-jbm)* , 8 (4), 83.
- soltani, m. a. (2014). effects of performance evaluation on employees' efficiency and productivity case study: gas compressor stations of gachsaran oil and gas production company. *indian journal of fundamental and applied life sciences issn: 2231- 6345* , d4, 513.
- Vainieri, S. N. (2012, May). Assessing the effectiveness of a performance evaluation system in the public health care sector: some novel evidence from the Tuscany region experience.
- Liza Estino Daoanis, P. (2012). PERFORMANCE APPRAISAL SYSTEM: It's Implication To Employee Performance. *International Journal of Economics and Management Sciences* , 2, 62.
- Choi Sang Long, T. O. (2013). A Review on Performance Appraisal System: An Ineffective and Destructive Practice? *Middle-East Journal of Scientific Research* 14 , 891.

Questionnaire

Hi, this is Aqsa kanwal, studying MS at Hamdard University, Karachi. You are requested to share your opinion. Your identity will remain anonymous and information will be used for research purpose only. I will discard the information provided by you after it has been transcribed.

Please put a check where you think is suitable given that (1) is the lowest degree of agreement and (5) is the highest degree of agreement.

#	Questions	1	2	3	4	5
1	My bank is aware of the factors used to evaluate employee's performance					
2	I have good understanding with performance evaluation system.					
3	My organization operates a formal performance evaluation system.					
4	Evaluation system is an important factor in better performance of organization.					
5	The evaluation system my organization is using currently is appropriate and relevant.					
6	The evaluation system is objective, fair and credible.					
7	Evaluation system has a positive impact on organizational performance.					
8	Evaluation results are communicated to employees in timely manner.					
9	Employees are treated respectfully during evaluation system.					
10	Discrimination free evaluation motivates the employees toward better performance that ultimately impacts organizational performance.					
11	Evaluation system has a positive effect on profitability and growth of organization.					
12	Evaluation system is helpful in providing concise picture of different level of employees.					
13	The proper performance evaluation system could be able to generate a feedback for continuous improvement of work.					
14	The evaluation system used in this bank works well and does not need to change.					
15	Performance evaluation techniques more impacts on my performance, incentives and morale.					
16	It helps me to perform my work well that ultimately benefit my organization growth and profitability.					

17 Qualification:

18 Gender:

19 Work experience:

Thank you very much for answering above questionnaire.