An Analysis of the Performance Appraisal System in the Jordanian Financial Sector: An International Perspective

Dr. Abdelghafour Al-Zawahreh¹, Dr. Samer Khasawneh²

Abstract

The primary purpose of this study is to determine the perceptions of employees regarding the effectiveness of the performance appraisal system (PAS) used by the financial sector in Jordan. Effectiveness of the PAS is determined by four factors including value, objectivity of ratings, key aspects, and actual uses of results. A total of 278 non-managerial employees from 13 financial organizations participated in the study by completing the study's questionnaire. The results of the study indicate that employees highly perceive the effectiveness of the performance appraisal system in Jordan. Furthermore, based on Multivariate Analysis of Variance (MANOVA), results indicate that there are no significant differences in employees' perceptions based on the demographics of gender and years of work experience. The study ends by offering a number of practical and theoretical recommendations for academics and practitioners. Among these recommendations is the fact that more factors to measure the PAS should be included and to expand such studies to other industry sectors in Jordan.

Keyword: performance appraisal, effectiveness, financial sector, employees, and Jordan.

¹ Assistant Professor, the Hashemite University/Zarqa-JORDAN. E-Mail Address: huhrd@yahoo.com
² Associate Professor, the Hashemite University/Zarqa-JORDAN.
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Introduction and Theoretical Framework

Organizations worldwide rely on the human resource department to perform many important functions including job analyses, personnel planning and recruiting, training and development, talent management, financial incentives, employee safety, and performance appraisals. Among these human resource practices, academic scholars and business managers indicate that employee performance appraisal or performance assessment is considered the most important in the field and has been considered a key element in organizational success (Boswell & Boudreau, 2002; Coens & Jenkins, 2000; Erdogan, Kraimer, & Liden, 2001). In other words, performance appraisal is a vital process for organizational efficiency and effectiveness (Roberts, 2003).

Performance appraisal is defined as “a process of identifying, measuring, developing, or reinforcing human performance in organizations” (Manshor & Kamalanabhan, 2000, p. 203). Denisi and Griffin (2001) define performance appraisal as “the specific and formal evaluation of an employee in order to determine the degree to which the employee is performing his or her job effectively” (p. 232). Grote and Grote (2002) define performance appraisal as a formal management system that provides for the evaluation of the quality of an individual's performance in an organization. They explain that the appraisal is usually prepared by the employee's immediate supervisor. The procedure typically requires the supervisor to fill out a standardized assessment form that evaluates the individual on several different dimensions and then discusses the result of the evaluation with the employee. These results "affects the status of employees regarding their retention, termination, promotion, demotion, transfer, salary increase or decrease, or admission into a training program"
Due to these reasons, performance appraisal systems are considered the "most delicate topics in HR [human resource] management" (Cascio, 1998, p. 58).

Performance appraisal is used by organizations to serve multiple purposes because it is believed that the assessment and feedback process will improve business. An effectively designed and administered performance appraisal process can provide the organization, the manager, and the employee with multiple benefits (Coens & Jenkins, 2000). Performance appraisal is used to evaluate employees’ strengths and weaknesses against a set of predetermined criteria that are linked to organizational goals (Grote, 2002); used as a tool to enhance employee and organizational productivity (Mani, 2002; Pettijohn et al., 2003); increase employee morale and satisfaction (Morrisey, 1983); and improve the quality of managerial decisions in areas such as compensation, promotion, and termination (Buford & Lindner, 2002). Other purposes of performance appraisal may include employee counseling, training and development, and selecting and relocating job candidates for organizational positions (Gomex-Mejiz, Balkin, & Cardy, 2001; Delpo & Nolo, 2005). If used well, performance appraisal is an influential tool which helps organizations organize and coordinate the power of every employee towards the achievement of its strategic goals (Grote, 2002).

Managers use a variety of assessment methods within the performance appraisal system including: (a) confidential reports; (b) narrative methods (include the essay method and the critical incident method); (c) ranking techniques (include simple or straight ranking, paired comparison, forced choice distribution); (d) graphic rating scales; (e) check list method; (f) group appraisal; (g) assessment center method; (h) results oriented appraisal approach; and (i) behaviorally anchored rating. A recent research study indicate that the most
common approaches for measuring the quantity and quality of employee job performance are rating scales, descriptive methods, and results oriented approach (Mani, 2002).

By providing employees with accurate feedback, the organization makes employees aware of areas of needed improvement and areas where the organization thinks employees stand out. "Providing feedback is the most common justification for an organization to have a performance appraisal system” (Grote, 2002, p.5). An effective performance appraisal system should allow employees to offer feedback and share ideas with superiors about their performances and execution of the process and to the human resource department about the usefulness and applicability of the performance appraisal process (Boswell & Boudreau, 2002). Further, “in most organizations, performance appraisal systems are designed both to facilitate information exchange and to influence performance, that is, performance appraisal is designed to provide the individual and the organization with data about what is going on, and it is designed as a medium through which the organization tries to influence the behavior of individuals” (Mohrman, Resnick-West, & Lawler, 1989, p.5).

However, the performance appraisal process is often stressful. As Fuller (1994) stated, “performance evaluations are often viewed as an exercise in frustration by both supervisors and subordinates” (p. 52). The process of performance appraisal might result in conflicts between managers and employees. Employees do not like performance appraisals because it is threatening to them and involves criticisms and uncertainties related to salary and promotion (Lam, Yik, & Schaubroeck, 2002). Employees do not like to hear bad news; nor is the manager excited about delivering bad news (Patten, 2002). Managers do not like performance appraisals because it might harm their relationships with employees or it might have negative impacts on employee work performance (Spinks, Wells, & Meche, 1999). In fact, very few people look forward to their performance appraisal results (Messmer, 2004). “Even though the role of evaluation may be uncomfortable for many, judgments of
performance are needed if performance contingent decisions, ranging from termination to pay increase and promotion, are to have any sort of rational basis” (Smither, 1998 p. 132).

A valid and reliable performance appraisal is a critically needed tool for effective human resource management practices and performance improvement in any organization (Longenecker & Fink, 2007). Too frequently employees do not know what is expected of them, their performance is ineffectively evaluated, or their rewards are not tied to performance (English, 1991). Most organizations do not realize the importance of developing an effective performance appraisal system and, therefore, do not take the time to make sure it is effective (Smither, 1998). When administered correctly, performance appraisals can be a positive experience that can motivate supervisors and employees (Messmer, 2004).

Statement of the Problem

Performance appraisals are common practice throughout the business world. However, evidence suggests that the current employee performance appraisal system is still not effective in reaching its purpose even though it has been recognized as one of the most important functions in the human resource field (Crane & Crane, 2000). Evaluating the existing performance appraisal system based on employees' perceptions is an issue that has not been widely explored in Jordan. There is a lack of clarity regarding how the employees' performance is evaluated, the objectivity of the ratings, as well as the actual use of the evaluation results in personnel decisions such as salary changes and promotion. Therefore, the primary purpose of this research is to determine the perceptions of employees regarding value, objectivity of ratings, key aspects, and actual uses of results of the performance appraisal system used by the financial sector in Jordan. This sector is chosen because of its importance to the national economy of Jordan.
Research Objectives

The following research objectives are formulated to achieve the primary purpose of the study:

1. To determine employees' perceptions regarding value, objectivity of ratings, key aspects, and actual uses of results of the performance appraisal system used by the financial sector in Jordan.

2. To determine significant differences in employees' perceptions regarding value, objectivity of ratings, key aspects, and actual uses of results of the performance appraisal system used by the financial sector in Jordan based on the demographics of gender and years of working experience.

Significance of The study

The results of the present study are important for a number of reasons. First, the human resource department can develop a clear picture of the effectiveness of the performance appraisal system in the financial industry in Jordan based on employees' perceptions. Employees are regarded as the most important asset in the organization and their perceptions of the system may play an important role in delivering good services to employees regarding training and development, salary changes, and promotions. Second, the study may guide managers to correct problems, if they do exist, on a continuous basis. Third, employees may have better understanding of the status of their performance appraisal system and may provide accurate feedback to their respective organizations as how to transform such systems into proactive ones.
Methodology

Population and Sample

The population for this study included private sector organizations operating in the financial sector in Jordan. Initial access to the organizations is gained through personal contacts. Because of limited access to subjects in Jordan, both purposive sampling and convenient sampling are used. Based on that, 13 organizations participated in the study and provided an initial sample of 301 non-managerial employees. Data were collected from 278 subjects for a response rate of 90%. The distribution of the sample is 127 males (45.7%) and 151 females (54.3%). There are 93 employees (33.5%) with less than 5 years of experience, 110 employees (39.6%) with 5-10 years of experience, and 75 employees (27.0%) with more than 10 years of experience.

Instrumentation

The instrument used in this study is a modified version of a survey validated in another study (An Analysis of the Employees Performance Appraisal System in The Saudi Arabian Civil Service, 1990). The original instrument is developed based on extensive research and theory and is conducted by the Office Personnel Management to explore the attitudes of federal public employees towards different subjects one of which is performance appraisal. The present instrument comprised of 21 items distributed over four dimensions as follow: value of performance appraisal (three items), key aspects of performance appraisal (five items), objectivity of the performance appraisal ratings (seven items), and use of the performance appraisal results in personnel decisions and in improving performance of employees (six items). Employees are instructed to indicate the extent to which they agreed with each items based on their perceptions on a five-point Likert type scale with the following anchors: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree. The instrument also collected demographic variables including gender and
years of experience. The face and content validity of the instrument is evaluated by an expert panel comprised of academics and business managers. The instrument is also field tested with 50 employees employed in the financial sector whom are excluded from the final sample of the study. Changes indicated by the validation panel and field test are incorporated in the instrument. Internal consistency coefficients for the instrument subscales are as follows: value of performance appraisal ($\alpha = .78$), key aspects of performance appraisal ($\alpha = .81$), objectivity of the performance appraisal ratings ($\alpha = .86$), and use of the performance appraisal results ($\alpha = .83$). These figures suggest that the instrument is suitable to measure dimensions of the performance appraisal system in the Jordanian financial sector.

**Data Collection**

The survey instrument is administered to 278 non-managerial employees employed by 13 local private organizations operating in the financial sector in Jordan. Each organization is contacted either by phone or in person to gain permission to conduct the study and administer the survey instruments. Once permission is granted, the researchers scheduled meetings with each organization, explained nature of the study, and assured confidentiality, voluntaries, and anonymity. Finally, instruments are handed and collected during those meetings. Employees are instructed that the instrument may take approximately 10 minutes to complete.

**Data Analysis**

The alpha level is set at .05 a priori. Procedures for statistical analyses are discussed by each research objective. Objective one is to determine employees' perceptions regarding value, objectivity of ratings, key aspects, and actual uses of results of the performance appraisal system used by the financial sector in Jordan. Descriptive statistics including means and standard deviations are used to achieve this objective for each dimension and for the total score. Objective two is to determine significant differences in employees' perceptions based on the demographics of gender and years of working experience. Multivariate analysis of
variance (MANOVA) is used to identify the differences in perceptions of the performance appraisal system based on demographic characteristics. MANOVA is an extension of analysis of variance (ANOVA) in that it can accommodate more than one dependent variable. As with ANOVA, the independent variables in MANOVA are a categorical variable, and the focal point is on the differences between levels of each categorical variable. Nevertheless, what makes MANOVA a multivariate procedure is that it examines the differences between groups for more than one dependent variable simultaneously (Hair, Anderson, Tatham, & Black, 1998). Moreover, MANOVA was chosen because it accommodates multiple dependent variables while controlling for the Type I error that can be inflated when multiple univariate analyses of variance are employed (Gardner, 2001). In the second research objective, the scale scores for the dimensions of the performance appraisal system are treated as the dependent variables, whereas the different levels of the categorical demographic variables (e.g., gender, and years of experience in current position) are treated as the independent variables. Each independent variable is tested separately.

In the case where significant differences among levels of the independent variables were detected (meaning that the collection of the dependent variables differed among levels of the independent variable), MANOVA analysis is then followed with univariate analysis of variance (ANOVA) and post hoc comparisons utilizing Tukey’s test at an alpha level of .05. Tukey’s test is one of the most conservative post hoc methods because it maintains the experiment-wise error rate at the pre-determined alpha level (Hinkle, Wiersma, Jurs, 1998). The tests of significance used with MANOVA are Hotelling’s Trace, Pillai’s Trace, Wilk’s Lambda, and Roy’s Largest Root when assessing the difference between group means. Hotleng's Trace and Wilks Lambda is the test of significance used in this study. However, the other tests of significance along with their effect size and power are reported in this study to provide additional information about their similarities and differences with each other. In the
event that the independent variable has two levels (e.g., gender), Hotelling $T^2$ is used; 
otherwise if the independent variable has more than two levels (e.g., experience), the ordinary 
MANOVA is utilized (Hair et al., 1998).

Finally, MANOVA assumptions are considered in this study. The first assumption 
was the equivalence of the variance/covariance matrices across all groups. Fortunately, if the 
groups are of roughly equal size (i.e., if the size of the largest group divided by the size of 
the smallest group is equal or less than 1.5), a violation of this assumption has minimal 
impact (Hair et al., 1998). The Box’s M test is used to check for this assumption. Usually, 
values below .05 indicate a violation of this assumption. The second assumption 
(homogeneity of variance) is tested using Leven’s test of equality of error variance. However, 
if the groups are roughly of equal size then a violation of this assumption has a minimal 
impact. The last assumption states that any linear combination of the dependent variables 
must follow a normal distribution. This assumption is tested by visually inspecting skewness, 
kurtosis, and the histogram for each dependent variable. Finally, the recommended sample 
size for MANOVA is 20 observations per cell. At minimum, the number of subjects in each 
cell should be more than the number of the dependent variables utilized in the study in order 
to be considered for this analysis (Hair et al., 1998). The minimum required sample size is 
satisfied in this study.

Results

The data collected from all participants are coded, entered to the SPSS spreadsheets, 
and analyzed using software package SPSS version 17.0. Descriptive statistics for all 
variables in this study are examined using SPSS frequencies. The minimum and maximum 
values of each variable are examined for the accuracy of data entry by inspecting out of range 
values. An examination of these values did not detect any out of range values. Missing
Subjects were not detected either. Results of the study are addressed by each research objective.

**Results Pertain Objective One**

Objective one is to determine employees' perceptions regarding value, objectivity of ratings, key aspects, and actual uses of results of the performance appraisal system used by the financial sector in Jordan. Descriptive statistics including means and standard deviations are used to achieve this objective. As shown in Table (1), all mean values of the dimensions of the performance appraisal system is above the value of 4 (on a 5-point scale), indicating high agreement of respondents regarding these dimensions. Further, the validity of scores as represented by their standard deviations is almost equal for all dimensions.


<table>
<thead>
<tr>
<th>Dimension</th>
<th>Means</th>
<th>Standard Deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Uses of Results</td>
<td>4.32</td>
<td>.45</td>
</tr>
<tr>
<td>Key Aspects</td>
<td>4.29</td>
<td>.54</td>
</tr>
<tr>
<td>Objectivity of Ratings</td>
<td>4.22</td>
<td>.47</td>
</tr>
<tr>
<td>Value</td>
<td>4.06</td>
<td>.60</td>
</tr>
<tr>
<td>Total</td>
<td>4.24</td>
<td>.41</td>
</tr>
</tbody>
</table>

**Results Pertain Objective Two**

Objective two concerns the significant differences in employees' perceptions regarding the dimensions of the performance appraisal system based on the demographics of gender and years of working experience. Multivariate analysis of variance (MANOVA) is used because this objective involves multiple dependent and independent variables. The four dimensions of the performance appraisal system are treated as the dependent variables, whereas categorical level variables (e.g., gender and years of work experience) are used as the independent variables. The results for each independent variable are reported separately.
Gender

Gender is used as an independent variable to determine whether perceptions of the dimensions of the performance appraisal system differed for males \( n = 127 \) versus females \( n = 151 \). The results of the box test showed significant differences in the variances among the two groups, indicating a violation of this assumption (Box’s M = 30.13, \( F = 2.96, p = .01 \)). However, since the ratio of the largest group to the smallest group is roughly of equal size, then violation of the unequal matrices across groups may not be serious. With respect to the equality of error variance, all factors met this assumption. Hotelling’s Trace is selected as the test statistic to evaluate the presence of differences across gender, with regard to the set of dependent variables. MANOVA analysis revealed no significant differences across levels of gender. As shown in Table (2), the calculated value of Hotelling’s Trace is .017 (\( F = 1.57, df = 10, p = .33 \)) indicating that differences did not exist for male and female respondents across the dependent variables.

Table (2): Multivariate Tests of Significance, Effect Size, and Power for Gender.

<table>
<thead>
<tr>
<th>MANOVA Test</th>
<th>Value</th>
<th>( F )</th>
<th>df</th>
<th>Sig.</th>
<th>Effect Size</th>
<th>Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillai’s Trace</td>
<td>.017</td>
<td>1.57</td>
<td>10</td>
<td>.33</td>
<td>.03</td>
<td>.36</td>
</tr>
<tr>
<td>Wilks’ Lambda</td>
<td>.983</td>
<td>1.57</td>
<td>10</td>
<td>.33</td>
<td>.03</td>
<td>.36</td>
</tr>
<tr>
<td>Hotelling’s Trace</td>
<td>.017</td>
<td>1.57</td>
<td>10</td>
<td>.33</td>
<td>.03</td>
<td>.36</td>
</tr>
<tr>
<td>Roy’s Largest Root</td>
<td>.017</td>
<td>1.57</td>
<td>10</td>
<td>.33</td>
<td>.03</td>
<td>.36</td>
</tr>
</tbody>
</table>

Years of Work Experience

The respondent’s years of work experience is treated as an independent variable to determine if significant differences in perceptions of dimensions of the performance appraisal system emerged across these categories. The years of experience was grouped into three categories as follow: less than 5 years (\( n = 93 \)), 5-10 years (\( n = 110 \)), and above 10 years (\( n = 75 \)). The Box test statistically significant differences (Box’s M = 34.20, \( F = 1.637, p = .03 \)), indicating a violation of this assumption. However, since the ratio of the largest group to the smallest group is roughly of equal size, then violation of the unequal matrices across groups may not be serious. With respect to the equality of error variance, all factors met this
assumption. Wilks’ Lambda is selected as the test statistic to evaluate the presence of differences across years of work experience, with regard to the set of dependent variables. MANOVA analysis revealed no significant differences across levels of years of work experience. As shown in Table (3), the calculated value of Wilks’ Lambda is .987 ($F = .46, df = 8, p = .88$) indicating that differences did not exist for groups of work experience across the dependent variables.

Table (3): *Multivariate Tests of Significance, Effect Size, and Power for Years of Experience.*

<table>
<thead>
<tr>
<th>MANOVA Test</th>
<th>Value</th>
<th>F</th>
<th>df</th>
<th>Sig.</th>
<th>Effect Size</th>
<th>Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pillai’s Trace</td>
<td>.013</td>
<td>.462</td>
<td>8</td>
<td>.88</td>
<td>.04</td>
<td>.45</td>
</tr>
<tr>
<td>Wilks’ Lambda</td>
<td>.987</td>
<td>.461</td>
<td>8</td>
<td>.88</td>
<td>.04</td>
<td>.45</td>
</tr>
<tr>
<td>Hotelling’s Trace</td>
<td>.014</td>
<td>.461</td>
<td>8</td>
<td>.88</td>
<td>.04</td>
<td>.46</td>
</tr>
<tr>
<td>Roy’s Largest Root</td>
<td>.013</td>
<td>.865</td>
<td>4</td>
<td>.46</td>
<td>.04</td>
<td>.43</td>
</tr>
</tbody>
</table>

**Discussion**

The primary purpose of this study is to determine the effectiveness of the performance appraisal system (PAS) used by the financial sector in Jordan based on employees' perceptions. Effectiveness of the PAS is determined by four factors including value, objectivity of ratings, key aspects, and actual uses of results. A total of 278 employees from 13 financial organizations participated in the study by completing the study's questionnaire. The results of the study indicate that, based on employees perceptions, the PAS is highly effective.

Employees in the financial sector indicate that it is very important to have formal performance appraisal systems to evaluate employees' performance, which in turn helps organizations in improving the quality of organizational performance. Moreover, employees in this study are very satisfied with their current performance appraisal systems because it is simple and easy to complete by their superiors and the dimensions of the performance appraisal system on which employees' performance are appraised include the most relevant dimensions of the person's job. Employee acceptance of their performance appraisals are
useful in determining the success of performance appraisal systems (Carroll & Schneier, 1982; Erdogan et al. 2001).

Employees also indicated that the ratings assigned to employees by their superiors are very objective because they represent an accurate picture of the actual job performance regardless of personal relationships. Employees also indicated that superiors tend to use multiple performance appraisal ratings to evaluate employees' performance. These results are consistent with the views of Mani (2002) who indicated that it is important to use multiple performance appraisal ratings such as rating scales, descriptive methods, and results oriented approach to evaluate employee performance. Further, employees indicated that performance appraisal results are used for promotion decisions, salary changes, determining training needs, and making disciplinary decisions. Levy and Williams (2004) stress on the fact that performance appraisals should be used for various administrative purposes including making personnel decisions regarding promotion, tenure, termination, and salary changes.

Employees also mentioned that their superiors discuss the results of performance appraisals with them. According to Margrave and Gorden (2001), an evaluation system that includes regular feedback from employees helps employers learn of problems before they become catastrophes. Also, previous research indicated that an effective performance appraisal system should allow employees to offer feedback and share ideas with superiors about their performances and execution of the process (Boswell & Boudreau 2002). In sum, the performance appraisal system used by the financial sector in Jordan, as perceived by employees, is highly effective because it helps to assess employees' strengths and weaknesses in performing their jobs and has resulted in improving employees' job performance and organizational performance.

Based on the above discussion, the study proposes a number of recommendations for the field of study. First, training sessions should be held on continues basis for raters of
performance appraisals to reduce errors in appraising employee performance. Second, employees should be involved in the decision-making process regarding the design and execution of the performance appraisal system. Third, this study should be replicated on a larger scale to include all industries in Jordan. Fifth, studies are needed in the area of comparing employees own evaluations of their performance compared to superiors evaluations of employee performance.

References


