RELATIONSHIP BETWEEN PERCEIVED FAIRNESS IN PERFORMANCE APPRAISAL AND OCB; MEDIATING ROLE OF ORGANIZATIONAL COMMITMENT

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ABSTRACT

Performance appraisal is a key element of management practices. Performance appraisal plays an important role for continuous improvement. A lot of researchers has worked on performance appraisal from both employee and organizations point of view. This study is aimed to find out the relationship between perceived fairness in performance appraisal and organizational citizenship behavior considering the mediation effect of organizational commitment. For the study 318 employees of banking sector were randomly selected. Questionnaire was used for data collection. Findings of the study indicate that there is significant and positive relationship between perceived fairness in performance appraisal and OCB while organizational commitment mediates this relationship.

Key words: Organizational Commitment, OCB, Performance Appraisal, Banking Sector.

1. INTRODUCTION

In human resource management performance appraisal is a key element of management practices. Appraising performance has been an important element of performance since ancient times. In today’s business environment performance appraisal is very important for continuous improvement. A lot of research work has been done in the banking sector of Pakistan but there is a little hard evidence found for the research work on the perceived fairness in performance appraisal’s impact on organizational commitment and organizational citizenship behavior (OCB). So, the rationale for choosing the banking sector of Pakistan is to fill that gap of research. In the present research study organizational commitment has been used as a mediating construct linking perceived fairness in performance appraisal with organizational citizenship behavior. According to Bretz, Milkovich and Read (1992) the most common issue regarding performance appraisal which is faced by organizations is the perceived fairness on the performance appraisal system. Kois, (1988) states that commitment of the employees towards their organization based on their belief that the organization’s HRM practices were motivated by a desire to be fair in the treatment of employees and to attract and retain good employees in the organization. While focusing on employee behaviors that can enhance and contributes into organizational success, Katz (1964) identifies the employee’s citizenship behavior that is necessary for the overall effectiveness of any organization system. This research work will undoubtedly prove to be a significant addition into the current body of knowledge. The findings of this research study might be helpful for the bank authorizes to increase the commitment and citizenship behavior of the employees employed into the banking sector of Pakistan by practicing the perceived fairness in the performance appraisal system.

2. THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

2.1. Perceived Fairness in Performance Appraisal

Perceptions of the fairness in performance appraisals are related to the managerial and professional employees’ opportunities to express their feelings, the existence of a formal appraisal system, the knowledge of supervisor about the performance of subordinate, the existence of action plans to improve performance weaknesses, and the frequency of evaluations. Bretz, Milkovich & Read (1992) illustrate that in performance appraisal, the most essential issue faced by an organization is the perceived fairness of its performance appraisal system. Greenberg (1987) illustrate that perceptions of fairness in organizations are not only influenced by outcomes (distributive justice), they are also driven by the fairness of the process used to reach those outcomes (procedural justice). Fullford, (2005) argued that the concept of organizational justice is a multi-dimensional construct that describes the role of fairness in an organizational context. Cremer (2005) proposed that the interaction between procedural and distributive justice is most likely Tobe observed when employees show a strong sense of affiliation with their organization. Murphy & Cleveland (1991) argue that performance appraisal is unlikely to be effective unless those people who are using this process perceive it as fair. Skarlicki and Folger (1997) argues that if employees feel that the system is biased, political, or irrelevant then the appraisal process can become a source of extreme dissatisfaction for them. So, when employees feel that they are not treated fairly then they react by changing their job attitudes (Vigoda, 2000). Understanding the importance of fairness in performance appraisal is very crucial for organizations because of its relationship with organizational commitment and organizational citizenship behavior which ultimately enhance the effectiveness of the organization.

2.2. Perceived Fairness in Performance Appraisal and Organizational Commitment
There are several different ways of defining and measuring organizational commitment. The common theme in these various definitions and measures is that "organizational commitment is a bond or link of the individual to the organization" (Mathieu & Zajac, 1990). A large number of studies have been done to investigate the determinants of organizational commitment but surprisingly it is found that very few studies have been done to explore the relationship between perceived fairness in performance appraisal and organizational commitment.

Mowday, Porter & Dubin (1974) link performance to commitment, states that the employees who are more committed are anticipated to give a superior performance as compare to those ones who are less committed. Various authors found that there is a relationship between organizational commitment and perceptions of employees about organizational justice in performance appraisal. However, how different dimensions of organizational justice interact with different forms of commitment is still a point of conflict between authors, as different study findings support different hypothesis drawn by authors.

A survey on bank employees was conducted by Sweeney & McFarlin (1992) and the result of that survey revealed that distributive justice proven to be a stronger predictor of organizational commitment as compare to procedural justice. The procedures of the firms regarding fairness which are used in the firm's may have a greater impact on organizational commitment than the fairness of distributive outcomes that workers receive, possibly because procedures define the organization's capacity to treat employees fairly. Thus, if the procedures are fair, employees may view the organization positively, even if they are currently dissatisfied with such personal outcomes as a low pay raise. It was also found out that fair procedures also lead to positive evaluations of the supervisors.

Another research study conducted by Lowe & Vodanovich (1995) on a sample of university employees showed different findings. They concluded that outcomes (distributive justice) were a better predictor of organizational commitment than the elements of procedural justice. These findings have been explained with the view that chronological factors may affect perceptions of organizational justice, that is, that the relative significance of Procedural Justice and Distributive Justice Judgments varies over time. Another possible reason behind distributive justice as a better predictor of attitudinal outcomes of employees might be that employees are not exactly aware of the procedures used by the organization and therefore rely on outcomes.

Croppanzano & Folger's (1989) states that if in an organization both distributive and procedural justice are not perceived as fair by the employees then the outcomes of subordinate's evaluation regarding supervisor and organizational commitment would be negative. But positive evaluations would be expected when procedural justice is high, regardless of the level of distributive justice. Malatasta et al., (1997) demonstrate that organizations can increase the level of commitment for their employees by providing them equitable and fair rewards. So, on the basis of these reasoning, following hypotheses has been deductive.

H1: Perceived fairness in Performance appraisal is positively related to organizational commitment.

2.3. Organizational Commitment and Organizational Citizenship Behavior

Organ (1988) defined organizational citizenship behavior as “a spontaneous behavior which is not rewarded or recognized by formal reward system in organization but is benefit to effective operation of organization”. Organizational Citizenship Behavior is an action which is not nominated or demanded by the formal job responsibilities (Farh, Zhong & Organ, 2004).

Now a days, organizations are facing a tough competition due to an intense flow of knowledge and awareness. So in order to enhance the competitive advantage highly committed employees are needed to the organization for increasing change (Lok and Crawford, 2001). For retaining the employees the organizations should enhance the organizational commitment (Stallworth, 2004). Organizational commitment is a construct which is significantly associated with the organizational citizenship (Gautam et al., 2004).

Scholl (1981) and Wiener (1982) proposed models of commitment supporting relationships with OCBs. According to the organization theory, organizational commitment has been confirmed to be an important variable in explaining employees’ OCBs (MacKenzie et al., 1998). A basic perception of prior theory and research in the OCB literature is that citizenship behaviors are motivated by positive job attitudes such as commitment (Organ & Ryan, 1995). Jaros (1997) argues that highly committed employees are more likely to engage in citizenship activities and high job performance that are considered beneficial for the organization. Schappe (1998), research based to investigate the influence of job satisfaction, procedural justice, and organizational commitment together on OCB. The findings of the research study showed that only organizational commitment had the significant relationship to OCB when considered with job satisfaction and procedural justice simultaneously. Scholl (1981) argued that organizational commitment made individual keep stable behavior even under conditions with unmet expectation and no organizational rewards. Kursad & Omaa (2008), research study showed a moderate positive relationship between the academic employee’s perception about organizational commitment and organizational citizenship behavior.

Mathieu & Zajac (1990) argued that committed employees were more likely to exhibit citizenship behaviors, which was often important for a competitive organization. Extra- role behaviors are the results of the organizational commitment (Foote, Seipel, Johnson & Duffy, 2005). Results of previous researches show that commitment is the predictive of organizational citizenship behavior because it significantly impacts OCB (Liu, 2009). So, organizational commitment can lead to organizational citizenship behavior. Thus, we propose the following hypothesis.

H2: Organizational commitment is positively related to organizational citizenship behavior.

2.4. The Mediating Role of Organizational Commitment

Mowday (1998) argued that organizational commitment can be a key mediating construct linking human resource management practices with performance constructs. Few studies examined the influence of management
practices on organizational citizenship behavior. Studies on perceived fairness or organizational justice have shown that these perceptions strongly affect the attitude of employees, for examples: job satisfaction, turnover intentions, organizational commitment, and workplace behavior, such as absenteeism and organizational citizenship behavior (Colquitt et al., 2001). In the previous research studies, a multifoci approach has been used to test the hypothesis related to employee commitment, procedural fairness and OCB. For example, Becker and Kernan (2003) examined relationships between employee commitment and OCB, whereas Rupp and Cropanzano (2002) studied relationships between procedural fairness and OCB.

Findley, Giles, & Mossholder (2000) explored the relationship between performance appraisal and organizational citizenship behavior. According to Malatasa & Byrne’s (1997) model, perceptions of procedural justice are based on an organization’s formal policies. They found that individuals reciprocate perceptions of fairness in procedures by exhibiting organizational commitment and organizational citizenship behavior. A research study on commitment, procedural fairness and OCB done by James & Joel (2009) shows the positive relationship between commitment and OCB and also shows a positive relationship between procedural fairness and OCB with a mediating effect of commitment. In this present research study, organizational commitment is a candidate to mediate the relationship between perceived fairness in performance appraisal and OCB. In past studies a significant relationship between perceived fairness in performance appraisal and organization citizenship behavior has been found (Folger & Konovsky, 1989; Moorman, 1991; Williams S, Pitre R & Zainubat M., 2002). In short, in this research study we assume that organizational commitment is a mediating variable linking perceived fairness in performance appraisal and organizational citizenship behavior. Based on the above reasoning, we deduct the following hypotheses.

H3: Organizational commitment mediates the relationship between perceived fairness in performance appraisal and organizational citizenship behavior.

Research Model

3. METHOD

3.1. Population, sampling and sampling technique

The study is aimed to find out the relationship between perceived fairness in performance appraisal and organizational citizenship behavior along with the mediation effect of organizational commitment. This study is conducted in banking sector of Pakistan. There are 203 banks registered with the web of Central Bank of Pakistan (www.sbp.com.pk), out of which 10 banks situated in Lahore, Pakistan were selected for the study. The employees of different banks from the city of Lahore were the participants of the study. The survey was conducted on random basis i.e. questionnaires were distributed without any discrimination or biasness. The sample of this study consists of 400 employees from these randomly selected banks.

3.2. Data collection

Questionnaire was used for data collection. Questionnaire was distributed to 400 employees of the banks. Out of which 318 responded back (response rate = 79.5%). From these 318 questionnaires 292 were completed and remaining 26 were incomplete. Only complete questionnaires were used for data analysis. So, the effective response rate of completely filled questionnaires was 72.5%. SPSS 17.0 was used as data analysis.

3.3. Measurement

For data collection, questionnaire consists of 53 items was used, out of which 11 questions were to measure the perceived fairness in performance appraisal. These questions were developed after studying research of different researchers i.e. Sweeney & McFarlin, 1997; Joy & Witt, 1992; Hodson et al., 1994; Dulebohn & Ferris, 1999. 23 questions were used to measure the organizational commitment adopted from the study of Allen &Meyer (1990), and the rest 19 questions were to measure the OCB, adopted from the study of Podsakoff et al., 1990.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach alpha value (α)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Fairness in Performance Appraisal</td>
<td>0.74</td>
</tr>
<tr>
<td>Organizational Commitment</td>
<td>0.93</td>
</tr>
<tr>
<td>Organizational Citizenship Behavior</td>
<td>0.92</td>
</tr>
</tbody>
</table>

4. FINDINGS OF THE STUDY

Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Commitment</td>
<td>292</td>
<td>3.0631</td>
<td>0.48713</td>
</tr>
<tr>
<td>Organizational citizenship Behavior</td>
<td>292</td>
<td>3.6511</td>
<td>0.59424</td>
</tr>
<tr>
<td>Perceived Fairness of performance appraisal</td>
<td>292</td>
<td>3.4701</td>
<td>0.7063</td>
</tr>
</tbody>
</table>

In the above Table 1 descriptive statistics of research variables are shown; It consists of the mean and standard deviation of the organizational Commitment, Organizational citizenship behavior and Perceived Fairness of
performance appraisal among employees of banking sector. The instrument used for data collection comprises five points Likert scale ranging from strongly disagree to strongly agree. Results shows that the mean score of organizational commitment is near to average (M=3.0631) which means that employees are neither agree nor disagree towards organizational commitment and they have neutral behavior. The mean score of organizational citizenship behavior is above average (M=3.6511) which means that employees are slightly agreed towards citizenship behavior. Table shows that fairness of performance appraisal has a mean score of 3.4701 which is also near to neutral. So, in summing up we can say that employees of banking sector are agreed about their organizational citizenship behavior, while they are neutral about perceived fairness in performance appraisal and organizational commitment.

Table 2. Regression Analysis of PFPA on OC and OCB

<table>
<thead>
<tr>
<th>Eq.</th>
<th>Independent</th>
<th>Dependent</th>
<th>$r^2$</th>
<th>$\beta$</th>
<th>F-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PFPA</td>
<td>OC</td>
<td>0.184</td>
<td>0.393</td>
<td>65.091</td>
</tr>
<tr>
<td>2</td>
<td>PFPA</td>
<td>OCB</td>
<td>0.011</td>
<td>0.126</td>
<td>35.321</td>
</tr>
<tr>
<td>3</td>
<td>OC</td>
<td>OCB</td>
<td>0.186</td>
<td>0.603</td>
<td>32.835</td>
</tr>
</tbody>
</table>

Where PFPA means perceived fairness in performance appraisal, OC means Organizational Commitment and OCB means Organizational Citizenship Behavior. Table 2 shows the regression analysis of perceived fairness in performance appraisal, organizational commitment and organizational citizenship behavior. The results indicates that there is positive and significant relationship between perceived fairness in performance appraisal and organizational commitment ($r=0.429$, $p<0.01$). Figures also indicates that there is relationship between perceived fairness in performance appraisal and organizational citizenship behavior, but, this relationship was not found to be significant ($r=0.107$, $p>0.05$).

Table 3. Mediation test of organizational commitment

<table>
<thead>
<tr>
<th>Eq.</th>
<th>Independent</th>
<th>Dependent</th>
<th>$r^2$</th>
<th>$\beta$</th>
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Where PFPA means perceived fairness in performance appraisal, OC means Organizational Commitment and OCB means Organizational Citizenship Behavior. ($p<0.01$)

Table 3 shows the series of regression equations to find out the mediation test on OCB. This test was run according to the instructions of Judd and Kenny (1981). The first equation shows the regression between Independent (perceived fairness in performance appraisal) and mediation variable (organizational commitment). The second equation is the result of regression between Independent (perceived fairness in performance appraisal) and Dependent variable (organizational citizenship behavior). And in the third and final equation, both Independent (perceived fairness in performance appraisal) and mediation variable (organizational commitment) were used as independent variables. The values of the table also fulfill all the conditions for mediation.

To access the mediation effect of organizational commitment between perceived fairness in performance appraisal and OCB equation 1, 2 and 3 were examined. In equation 1, organizational commitment (mediator) was regressed on perceived fairness in performance appraisal (predictor) and the relationship was significant ($\beta=0.393$, $p<0.01$). In equation 2, OCB (dependent variable) was regressed on perceived fairness in performance appraisal (predictor) and the relationship was found to be significant ($\beta=0.126$, $p<0.01$). In equation 3, OCB was simultaneously regressed on organizational commitment (mediator) and perceived fairness in performance appraisal (predictor). The relationship between OCB and perceived fairness in performance appraisal was significant ($\beta=0.113$, $p<0.01$), but less than in equation 2, ($\beta=0.126$, $p<0.01$). Thus all the conditions of Judd and Kenny (1981) are met for mediation i.e. (1). There is significant relationship between independent and mediator variable (2). There is significant relationship between independent and dependent variable. (3) Mediating and dependent variable are significant and (4) Effect of independent variable is greater on mediating variable and value of beta is greater in equation 2 then in equation 3. Analysis of the study indicates that organizational commitment is mediator between perceived fairness in performance appraisal and OCB.

5. CONCLUSION

In this paper a structured model have been developed and tested that organizational commitment mediates the perceived fairness in performance appraisal and organizational citizenship behavior. Some important findings of the study are: firstly, Perceived Fairness in Performance Appraisal is positively and significantly related to the Organizational Commitment and Organizational Citizenship Behavior. Secondly, Organizational Commitment leads to Organizational Citizenship behavior among the employees of banking sector of Pakistan. Thirdly, Organizational Commitment is a mediator role player between Perceived Fairness in Performance Appraisal and Organizational Citizenship Behavior. In conclusion, this research study has explored the relationship between perceived fairness in performance appraisal and its reaction towards the system. An empirical and theoretical review of research shows that employee’s perception of fairness and their reaction normally have chain effects that can influence the benefit of the system. So an in depth analysis of organizational justice in performance appraisal can be a productive mean in performance appraisal both for organization and employees to achieve their goals.
6. CONTRIBUTION TO THE STUDY

The study provides new directions in the research; by opening a debate on the relationship of fairness in performance appraisal and its impact on work related behaviors like organizational commitment and organizational citizenship behavior.

The findings of the current research work propose that if there is a perceived fairness in the performance appraisal then the employees will be committed and, more the employees of the organization are committed, the more they will try to perform citizenship behaviors that lead to organizational effectiveness. This is true for the aggregate context of fairness in the banking sector of Pakistan.

7. FUTURE DIRECTION AND LIMITATIONS

This study is an attempt to find the mediation effect of overall Organizational Commitment between Perceived Fairness in Performance Appraisal and Organizational Citizenship Behavior. In future all the dimensions of organizational commitment i.e. (a) Affective commitment (b) Normative Commitment and (c) Continuance Commitment should be considered to see their mediation effect individually. There are also numerous other factors like, motivation, job satisfaction, job involvement and performance etc. that can be investigated as consequences of Perceived Fairness in Performance Appraisal. Furthermore the present study is on banking sector. This study should be replicated on other sectors i.e. telecom, industrial and educational sector.

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