

## **ANTECEDENTS OF EMPLOYEE FAIRNESS PERCEPTION OF PERFORMANCE APPRAISAL SYSTEM WITHIN ORGANIZATION: A BANKING SECTOR REVIEW**

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### **1.1 Introduction**

The concept of justice has interested scholars since times immemorial but, it was Aristotle, who first analyzed the justice in context of distribution of resources between individuals, thereby laying the foundation of justice in organizational settings (Ross, 1925 cited in Greenberg and Colquitt, 2005). The disputes in an organization frequently arise on account of employees' perception of unfair and ineffective performance appraisal practices in the organization. Performance appraisal is said to be the most crucial and indispensable human resource practice in an organization (Shrivastava and Purang, 2011). As such any discrepancy or employees' perception of injustice in performance appraisal can become the reason for employee dissatisfaction, loss of productivity and high turnover (Ahmed et al., 2011). The paper throws light upon the factors determining employee perceptions of fairness in performance appraisal in the Banking sector.

### **1.2 Objectives**

The objectives of the paper can be outlined as follows:

1. To explore and understand the concept of organizational justice and its importance in present context.
2. To explore and understand the antecedents of organizational justice.
3. To analyze and understand the role of Leader-Member Exchange Quality (LMX) and Power Distance as contextual factors of organizational justice.

4. To explore the factors determining the fairness perception of Performance appraisal in Banking Sector.

### **1.3 Literature Review**

#### **1.3.1 Concept of Organizational Justice and its importance**

The term “organizational justice” was first used by Greenberg in 1987 in the article “Academy of Management Review” (Colquitt, n.d. cited in Barling and Cooper, 2008). It has been more than two decades since Greenberg had used this term to denote people’s perceptions of fairness in the organization but the matters of justice in organizational settings were only a passing interest for classical scholars and management theories and have actually gained significance during the second half of the twentieth century (Greenberg and Colquitt, 2005).

Employees in an organization are concerned about various facets of justice which not only include concerns regarding resource distributions like wages, salary, rewards, and promotions or the outcome of dispute, if any happens comprising what is called as the distributive justice, but also about the fairness of procedures that have been used to reach to that outcome or that formed the basis for resource distribution, known as the procedural justice, as well as the nature of interpersonal treatment received in the organization by other organizational members, especially the key authorities, known as the interactional justice. The combination of distributive justice, procedural justice and interactional justice forms the term “organizational justice” (Greenberg and Colquitt, 2005).

Organizational justice is a critical concept in contemporary market scenario as the workforce has emerged as the most crucial asset in an organization. As such, the manners in which the employees perceive the procedures and decisions take place in the organization have an impact on their attitudes and behaviors, performance and commitment, loyalty and retention. Today’s workforce is comprised of knowledge workers who do not only expect a good job profile and compensation but also look forward to receive good treatment in the job (Beugre, 1998). Besides, the employee perceptions of organizational justice also establish the organization as an

attractive place to work in the market, ultimately building goodwill in long-run (Greenberg and Colquitt, 2005).

### 1.3.2 Introduction to Antecedents of Justice Perception

The main antecedents or the determinants or predictors of organizational justice perception by the employees include organizational culture, pre-appraisal leader–member exchange (LMX) and its perceived basis, due process characteristics and perceived type of information raters use, perceived organizational support (POS), and impression management behaviors of raters (Erdogan, 2002).

While the origin of distributive justice can be found in Adam’s theory of equity which establishes that individuals compare their input-output with those of others to perceive fairness in distribution (Austin, 2014), for explaining antecedents of procedural justice, Erdogan (2002) categorizes procedural justice as rater procedural justice and system procedural justice laying stress on the role of rater and the system in justice perception. The antecedents of system procedural justice include due process characteristics and pre-appraisal perceived organizational support (POS) whereas the antecedents for rater procedural justice include process characteristics and organizational culture. The diagram for the same has been given below (Figure 1).

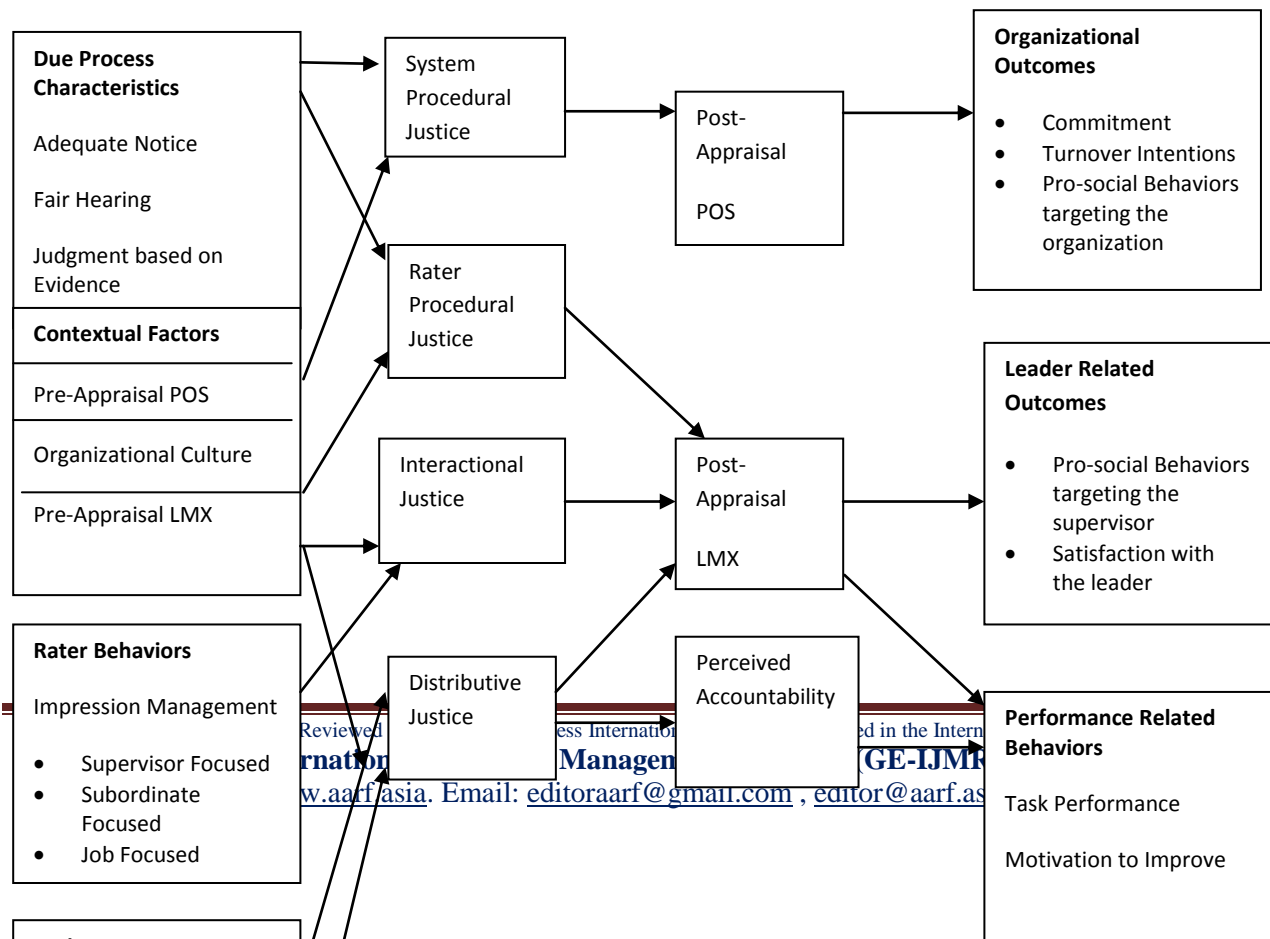


Figure 1: Antecedents of Justice Perception

Source: Erdogan, 2002

### **1.3.3. Contextual Factors**

The antecedents of justice perception include not only the features of the performance appraisal system but there are also a number of factors outside the appraisal process that can affect an employee's perception of justice. These outside factors affecting employees' perceptions are called contextual factors (Erdogan, 2002).

#### ***1.3.3.1 Leader-Member Exchange Quality (LMX)***

Leader-Member Exchange Quality (LMX) is an important concept in context of organizational justice perceptions and has been defined as the unique relationship-based social exchange between leaders and members (Graen and Uhl-Bien, 1995 cited in Pierce, 2011). LMX indicates the quality of relationship between the superiors and subordinates, a relationship that goes beyond the employment contract and is based upon trust, mutual respect and sharing (Erdogan, 2002). Literature provides that LMX is significantly related to the employees' justice perceptions in the organization, especially in context of distributive justice. Those employees having a close relationship with their supervisors perceive the organization to be fairer than compared to those who do not share such close relationship with the leaders. However, the intensity of this relationship is influenced by the actions and expectations from both sides i.e. leaders and the led (Hollander, 1978 cited in Pierce, 2011).

### ***1.3.3.2 Power Distance***

The level of power distance perceived by employees in an organization has significant impact on the perception of organizational justice. It has been found that organizations which allow higher degree of employee empowerment tend to secure a more positive perception of fairness by employees in the organization (Rafiei and Pourreza, 2013). Morris and Leung (2000) establish in context of organizational justice that in cultures with high power distance, employees' acceptance of unequal privileges promotes the tolerance of unfair treatment whereas in contrast to this, in low power distance cultures, rejection of inequality makes employees less tolerant of unfair treatment (Morris and Leung, 2000 cited in Beugre, ). High power distance organizations can be characterized by those with centralized authority, dictatorial leadership, patriarchal management style, and multiple-hierarchical structures (Cardon, 2008).

### **1.3.3 Fairness perception of Performance appraisal in Banking Sector**

Several studies in the past have explored different dimensions of employees' fairness perceptions of organizational justice in banking sector including the studies which have compared the employee fairness perceptions of performance appraisal in public and private sector banks. An important finding has been that private banks outscore public banks in India not only in technical and economic efficiency parameters but also in context of employees' fairness perceptions of performance appraisal system (Mahalawat and Sharma, 2012). Further the consequences of such fairness perception are found to be linked with employee engagement with the job and the organization. In case of banks, distributive justice or justice in performance appraisal outcomes has been found as the most significant factor determining employee engagement followed by procedural and interactional justice (Ghosh et al., 2014).

## **1.4 Research Methodology**

### ***Research philosophy***

The current paper uses the positivism research philosophy because it helps in observing social realities and reaching conclusion identifying the antecedents of justice perception.

### ***Research design***

The paper uses descriptive as well as explanatory research design as it describes employees within their workplace, as in descriptive and at the same time, analyses their current situation and tests hypothesis related to antecedents of justice perception to arrive at conclusions, as in case of explanatory research.

### Research approach

The research paper uses deductive approach as the study first develops a conceptual and theoretical framework and then tests it using empirical observations, moving from general observations to particular ones regarding the employees' perception of the antecedents.

### Data collection

The paper uses both primary and secondary data. The primary data has been collected from 200 employees from one private bank of India. The researcher obtained approval prior to conducting the actual survey by way of a cover letter and conducted surveys via e-mail. The researcher used secondary data collected from books, journals, articles, websites etc. to support the primary data.

### Reliability and validity of methods

For primary data, the researcher conducted Cronbach alpha test using SPSS 19.0 which resulted in a value of 0.890, showing that the data is reliable. The secondary data has been collected only from credible sources.

### Data analysis

The researcher transferred the responses to an excel sheet by coding them and then imported the data to SPSS 19.0. The correlation and regression analysis tests were then conducted to test the proposed hypotheses.

## **1.5 Result and discussion**

### **Demographic Profile of the Respondents**

Table 1 below shows the demographic profile of the respondents which includes their age and gender. The table shows that 42.2% of the employees were from the age group of 36-45 years, while 31.2% of respondents were aged between 46-55 years. Only 4.5% were aged more than 56 years and the remaining 22.1% respondents were 25-35 years old.

The sample population was distributed almost equally in terms of gender with around 58% respondents being male and the remaining 42% being female.

Variable	Age (In years)				Gender	
	Statistics					
	25-35 years	36-45 years	46-55 years	56 years and above	Male	Female
Percent	22.1%	42.2%	31.2%	4.5%	57.8%	42.2%

Table 1: Descriptive Statistics of Demographic Profile of the Respondents

Source: SPSS 19.0

### Hypothesis for the research

#### Hypothesis 1:

Null hypothesis  $H_{10}$ : LMX is an Antecedent of justice perception in Private Banks

Alternate hypothesis  $H_{11}$ : LMX is not an Antecedent of justice perception in Private Banks

The researcher conducted correlation tests among the various factors related to LMX and LMX itself. The results of correlation analysis, as shown in Table 2, suggest that return of efforts by manager ( $r=0.374$ ;  $p=0.002$ ) is the only factor significant at 98% level. All the other factors were found to be weakly correlated to LMX. Also, the correlation was insignificant.

Correlations		
		LMX
LMX	Pearson Correlation	1
	Sig. (2-tailed)	
	N	200

I consult my supervisor or other people who might be affected by my actions or decisions.	Pearson Correlation	-.047
	Sig. (2-tailed)	.512
	N	200
I inform my supervisor before taking any important action.	Pearson Correlation	.146*
	Sig. (2-tailed)	.039
	N	200
My Manager and I have a two-way exchange relationship	Pearson Correlation	.216
	Sig. (2-tailed)	.251
	N	200
I do not have to specify the exact conditions to know my Manager will return a favor.	Pearson Correlation	.327
	Sig. (2-tailed)	.231
	N	200
If I do something for my manager, he or she will eventually repay me	Pearson Correlation	.126*
	Sig. (2-tailed)	.025
	N	200
I have a balance of inputs and outputs with my manager.	Pearson Correlation	.180*
	Sig. (2-tailed)	.011
	N	200
My efforts are reciprocated by my manager.	Pearson Correlation	.245
	Sig. (2-tailed)	.342
	N	200
My relationship with my manager is composed of comparable exchanges of giving and taking.	Pearson Correlation	.288
	Sig. (2-tailed)	.064
	N	200
When I give effort at work, my manager will return it.	Pearson Correlation	.374**
	Sig. (2-tailed)	.002
	N	200

Table 2: Correlation between LMX and its associated factors

Source: SPSS 19.0



Result: The results show weak correlation LMX and its associated factors, meaning that the null hypothesis H1a<sub>1</sub> is accepted and alternative hypothesis H1a<sub>0</sub> is rejected.

**Hypothesis 2:**

Null hypothesis H1b<sub>0</sub>: Power Distance is an Antecedent of justice perception in Private Banks

Alternate hypothesis H1b<sub>1</sub>: Power Distance is not an Antecedent of justice perception in Private Banks

The researcher conducted correlation tests among the various factors related to power distance and power distance itself. The results of correlation analysis, as shown in Table 3, suggest that employees having independence in executing their duties (r=0.689 ; p=0.001), managers consulting with subordinates (r=0.369; p=0.003), non-managers initiating in related matters (r=0.203; p=0.004), managers and non-managers holding joint meetings (r=0.243; p=0.001), non-managers trusting each other (r=0.201; p=0.004) and managers not delegating important tasks to non-managers (r=0.201; p=0.005) are the factors significant at 98% level.

<b>Correlations</b>		
		Power Distance
Power Distance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	199
Employees have independence in executing their duties	Pearson Correlation	.689**
	Sig. (2-tailed)	.001
	N	199
Managers do consult with the subordinates	Pearson Correlation	.369**
	Sig. (2-tailed)	.003

	N	199
Managers and lower cadre employees mix up freely in the organization	Pearson Correlation	.023
	Sig. (2-tailed)	.748
	N	199
Non-managers are free to take up positions different from that taken by managers	Pearson Correlation	.117
	Sig. (2-tailed)	.101
	N	199
Non- managers take initiatives in matters pertaining to their work	Pearson Correlation	.203**
	Sig. (2-tailed)	.004
	N	199
Managers and non-managers hold joint meetings	Pearson Correlation	.243**
	Sig. (2-tailed)	.001
	N	199
Non-managers have power and authority to execute their duties	Pearson Correlation	-.003
	Sig. (2-tailed)	.970
	N	199
Power is equally distributed in the organization	Pearson Correlation	-.008
	Sig. (2-tailed)	.913
	N	199
Non-managers disagree with the managers	Pearson Correlation	.137
	Sig. (2-tailed)	.054
	N	199
Non-managers trust each other	Pearson Correlation	.201**
	Sig. (2-tailed)	.004
	N	199
Non-managers are allowed to participate in decision-making	Pearson Correlation	-.070
	Sig. (2-tailed)	.324
	N	199
Non-managers are less	Pearson	-.113

afraid of disagreeing with their supervisors	Correlation	
	Sig. (2-tailed)	.111
	N	199
All should have equal rights in the organization	Pearson Correlation	-.135
	Sig. (2-tailed)	.057
	N	199
Non-managers are much more cooperative	Pearson Correlation	-.007
	Sig. (2-tailed)	.923
	N	199
Non-managers have a stronger perceived work ethics	Pearson Correlation	-.005
	Sig. (2-tailed)	.943
	N	199
Non-managers are not allowed to make decisions on behalf of managers	Pearson Correlation	-.140*
	Sig. (2-tailed)	.049
	N	199
Non-managers have no authority and power	Pearson Correlation	.133
	Sig. (2-tailed)	.061
	N	199
Managers direct the non-managers on the way forward	Pearson Correlation	.090
	Sig. (2-tailed)	.208
	N	199
Non-managers are reluctant to trust each other	Pearson Correlation	-.025
	Sig. (2-tailed)	.724
	N	199
Non-managers fear disagreeing with managers	Pearson Correlation	-.001
	Sig. (2-tailed)	.985
	N	199
Power holders are entitled to privileges	Pearson Correlation	.021
	Sig. (2-tailed)	.772

	N	199
Powerful people should look more powerful	Pearson Correlation	.177*
	Sig. (2-tailed)	.012
	N	199
Managers like seeing themselves as decision makers	Pearson Correlation	-.005
	Sig. (2-tailed)	.947
	N	199
Non-managers place high value on conformity	Pearson Correlation	.145*
	Sig. (2-tailed)	.041
	N	199
Cooperation among the powerless is difficult to bring about due to low faith in peoples' norms	Pearson Correlation	.170*
	Sig. (2-tailed)	.016
	N	199
Non-managers do fear disagreeing with the supervisors	Pearson Correlation	-.034
	Sig. (2-tailed)	.629
	N	199
Managers make decisions autocratically	Pearson Correlation	.015
	Sig. (2-tailed)	.831
	N	199
Power is centralized in the organization	Pearson Correlation	.106
	Sig. (2-tailed)	.137
	N	199
Managers do not delegate important tasks to the non-manager	Pearson Correlation	.201**
	Sig. (2-tailed)	.005
	N	199

Table 3: Correlation between Power distance and its associated factors

Source: SPSS 19.0

*Result:* The results of correlation analysis show a strong correlation between power distance and multiple factors associated with it within private banks, indicating that the null hypothesis  $H1b_0$  is rejected and alternative hypothesis  $H1b_1$  is accepted.

## **1.6. Conclusion**

The research paper explored the concept of justice perception of employees and its antecedents within private banks in India. The literature review explained the concept of justice perception and its importance. It further discussed the various antecedents of justice perception with a special emphasis on the contextual factors. The contextual factors include the Leader-member exchange (LMX) and power distance. Lastly, it explained the fairness perception of performance appraisal in banking sector.

Since the main aim of this paper was to analyze and understand the role of Leader-Member Exchange Quality (LMX) and Power Distance as contextual factors of organizational justice. This was done to assess whether these contextual factors impacted organizational justice in the private banking sector.

The correlation analysis conducted to test the hypotheses revealed that there was strong correlation between power distance and its associated factors. On the other hand, there was no correlation between LMX and associated factors. Thus, it may be concluded that power distance is an antecedent of justice perception in private banks but LMX is not an antecedent of justice perception. The future scope of the study may be extended by way of conducting the study from the perspective of managers, rather than the employees. Also, the study could be conducted in public sector banks for a more comparative study.

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Appendix 1: Quantitative Questionnaire

**Section A** - Demographic Information

Please complete the following:

1. Name of the Bank / organisation \_\_\_\_\_
2. Age \_\_\_\_\_
3. Gender \_\_\_\_\_

**Section B**- Antecedents of Justice Perception

1. Power Distance

In the following section statements are given to evaluate the procedure of appraisal system practiced in your organisation. Please read each of the questions carefully and mark the answer that indicates the extent to which you agree with the statement.

	Strongly Disagree	Disagree	Neither Agree or Disagree (Neutral)	Agree	Strongly Agree	
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
1.	Employees have independence in executing their duties					
2.	Managers do consult with the subordinates					
3.	Managers and lower cadre employees mix up freely in the organization					
4.	Non-managers are free to take up positions different from that taken by managers					
5.	Non- managers take initiatives in matters pertaining to their work					
6.	Managers and non-managers hold joint meetings					
7.	Non-managers have power and authority to execute their duties					
8.	Power is equally distributed in the organization					
9.	Non-managers disagree with the managers					
10.	Non-managers trust each other					
11.	Non-managers are allowed to participate in decision-making					
12.	Non-managers are less afraid of disagreeing with their supervisors					
13.	All should have equal rights in the organization					
14.	Non-managers are much more cooperative					

15.	Non-managers have a stronger perceived work ethics	
16.	Non-managers are not allowed to make decisions on behalf of managers	
17.	Non-managers have no authority and power	
18.	Managers direct the non-managers on the way forward	
19.	Non-managers are reluctant to trust each other	
20.	Non-managers fear disagreeing with managers	
21.	Power holders are entitled to privileges	
22.	Powerful people should look more powerful	
23.	Managers like seeing themselves as decision makers	
24.	Non-managers place high value on conformity	
25.	Cooperation among the powerless is difficult to bring about due to low faith in peoples' norms	
26.	Non-managers do fear disagreeing with the supervisors	
27.	Managers make decisions autocratically	
28.	Power is centralized in the organization	
29.	Managers do not delegate important tasks to the non-manager	

2. LMX

In the following section statements are given to evaluate social exchange. Please read each of the questions carefully and mark the answer that indicates the extent to which you agree with the statement.

Not at all	Very little	A little	Somewhat	Quite a bit	A good deal	Very much
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>

1.	My Manager and I have a two-way exchange relationship.	
2.	I do not have to specify the exact conditions to know my Manager will return a favour.	
3.	If I do something for my manager, he or she will eventually repay me.	
4.	I have a balance of inputs and outputs with my manager.	
5.	My efforts are reciprocated by my manager.	
6.	My relationship with my manager is composed of comparable exchanges of giving and taking.	
7.	When I give effort at work, my manager will return it.	
8.	Voluntary actions on my part will be returned in some way by my manager.	

Any other comments

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