

# **IMPACT OF APPRAISAL SYSTEM ON EMPLOYEE PERFORMANCE: A COMPARISON OF PERMANENT AND CONTRACTUAL EMPLOYEES OF PAKISTAN TELECOMMUNICATIONS COMPANY LIMITED (PTCL)**

*Kamran Ahmed Malik, M.Phil*

SZABIST, Pakistan

*Barira Bakhtawar, M.Phil*

FCC University, Pakistan

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## **Abstract**

This research was conducted to study the impact of performance appraisal system in PTCL on employee performance. PTCL is the largest telecommunication services provider in Pakistan. PTCL was privatized in April, 2006 by selling 26 percent shares to Etisalat. The privatization of PTCL offered its employees an opportunity to quit the regular job and join on contractual basis due to higher incentives. Ever since its privatization, the permanent and contractual employees are working side by side in PTCL. There are different types of performance appraisal systems being used in PTCL for permanent and contractual employees. This research aimed at identifying different types of appraisal systems being used at PTCL for permanent and contractual employees. How the employees perceive their respective appraisal system and subsequently what are the implications on their performance? For this purpose a questionnaire was designed and data was collected from a sample of 96 people belonging to the cadre of both permanent and contractual employees. Seven hypotheses were developed regarding employees perception about their respective appraisal system and were tested through Z-test. The survey findings show strong deviations in terms of responses of permanent and contractual employees regarding their respective appraisal systems. The permanent employees showed strong resentment about their existing appraisal system. They termed it as an insignificant annual formality with no effectiveness at all based upon its weak linkage with compensation and benefits system. On the other hand, the contractual employees were found to be immensely satisfied with the implementation of their appraisal system. The main factors were found out to be a clear, strong and compelling linkage with the pay, promotion and training.

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**Keywords:** Appraisal System, Employee Performance, Pakistan Telecommunications Company

## **Introduction**

### **Background of Research**

Pakistan Telecommunication Company Limited (PTCL) is proud to be Pakistan's most reliable and largest converged services carrier providing all telecommunications services from basic voice telephony to data, internet, video-conferencing and carrier services to consumers and businesses all over the country. The company maintains a leading position in Pakistan as an infrastructure provider to other telecom operators and corporate customers of the country. In April 2006, Emirates Telecommunication Corporation, which is commonly known as Etisalat, assumed management control of Pakistan Telecommunication Company Ltd. Etisalat was able to get 26% ownership of the company. PTCL is still in transition phase and has both regular as well as contractual employees. The performance management system in PTCL is

present in both its new and old structure. In old system (not exactly a PMS) annual confidential reports, commonly known as ACR are used as a performance measurement tool. The ACRs are now renamed as Performance Evaluation Reports. These are used for regular employee's promotion. And the new system for contractual employees is a top down performance evaluation system. More than one form is used for different cadres of contractual employees. These forms are then linked with pay (performance related pay), promotion and incentives. So at this stage there are two appraisal systems running simultaneously in PTCL.

This research has been conducted to study the impact of different appraisal systems used at PTCL on employees' performance. A comparison of permanent and contractual employees of PTCL has been done in this regard. The focus has been measuring the perceptions of both permanent and contractual employees regarding their respective appraisal system. These perceptions are crucial because how the employees perceive the fairness and equity in the performance appraisal system ultimately determine their own performance at workplace. Hence, the performance appraisal system of any organization surely has certain inherent implications on employee performance.

### **Objectives of Research**

The objective of this research is to understand;

- Performance management mechanism at PTCL
- The appraisal systems being run at PTCL
- Which appraisal system is more effective at PTCL
- The purpose behind using different appraisal systems for different cadres of employees
- The impact and implications of different appraisal systems on employee's performance

### **Research Methodology**

This research is a descriptive research with a combination of Qualitative and Quantitative techniques. Qualitative research was used to identify linkage of appraisal system with certain performance related factors. The vast literature available in electronic and print media was utilized for that purpose. Quantitative research was then used for getting response of employees through structured questionnaire.

### **Research Tool**

For data collection, the questionnaire was developed to be filled by the employees. The questionnaire focused on evaluating the effectiveness of different appraisal systems by measuring perceptions of both permanent and the contractual employees.

### **Respondents**

The respondents were middle management; managers, front-line managers, assistant managers, young executives and junior officers. Their bosses were mostly general managers, team/project leaders, assistant vice presidents etc.

### **Sampling**

Non probability sampling had been designated for this research under which Convenience sampling was utilized. A sample of a total of 96 respondents was analyzed out of which half of them were permanent while remaining half were the contractual employees.

### **Performance Management**

Performance management can be defined as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the human

capital and by developing the capabilities of teams and individuals within that organization (Armstrong and Baron, 2000). The process of performance management therefore focuses not only with 'WHAT' is produced but, also 'HOW' it is produced. It seeks to ensure that what has been produced is in line with the organization's needs and these products have been produced in line with the organization's way of doing things. In order to determine the overall effectiveness of any appraisal system and its impact on employee performance, literature suggests some of the following inherent characteristics to be considered.

### **Instrument Validity**

Instrument validity basically refers to whether the performance appraisal system has well defined standards or not. The set of activities which are performed by the employee are measurable to what extent. Instrument validity is further determined by its accuracy of measuring the work specific activities. Whatever is performed by the employee at the workplace should be measured objectively. If the performance appraisal system is able to do that, this means that it has satisfactory instrument validity. One of the most peculiar characteristic of any performance appraisal system is its distributive justice. The distributive justice refers to whether the appraisal process results in a clear and unbiased appraisal or not. It broadly determines whether the best worker receives the highest evaluation scores or not. The good deal of distributive justice ultimately makes the appraisal system as fair and unbiased process. Besides fairness, the performance appraisal system should act as a catalyst to bridge the communication gap between the boss and the subordinate. Prompt communication and immediate feedback is the ultimate essence of any appraisal system which is possible only if the distributive justice exists.

### **Role of Supervisor**

The role of any supervisor is very critical in determining and implementing the procedural justice in the appraisal system. Regardless of the efficacy and effectiveness of the processes of performance appraisal system, a justified role played by the supervisor is critical in implementation of appraisal system. It all depends upon how well a supervisor is able to keep the favoritism and biases away from the evaluation process. The supervisor should be emotionally strong and mature enough while dealing with his biases. An effective appraisal system not only evaluates the performance of the past period but also sets certain objectives and guidelines for future performance period as well. This makes the appraisal system a well balanced instrument in which both the past and future performance are equally catered. Merely evaluating the past performance may not prove to be much useful and productive for the organization as well as the employees. In order to foster a culture of continuous positive development and self excellence, a formalized goal settings related to future tasks is paramount. An effective linkage of appraisal system with goal setting is essential for better performance. Hence, the future goals and assignments should be comprehensively deliberated upon in the annual appraisal activity.

### **Performance Feedback**

Performance feedback is very critical and crucial concept. The accurate measurement of performance and its subsequent communication to the person being appraised are very important processes and hence great care should be exercised in development and implementation of these processes. The feedback can be considered as a major determinant of shaping or breaking employee performance. If it is performed in an efficient way, it can generate productive responses from the employees. On the other hand, irregularities or lack of interest in provision of performance feedback can prove to be harmful for employees as well as the organization. The performance based pay is a buzz word now days. Many of the organizations are in a sort of dilemma while devising the compensation and benefits policies.

The question is whether the performance should be associated with direct financial rewards or the non financial awards. However, it is widely acclaimed that performance based pay based on performance ratings is the most effective method of motivating employees to improve & sustain their performance. The organizations where there is no concept of performance based pay for employees are ultimately indulged into a culture of underperformance.

### **Employee Participation**

Employee empowerment and participation has been suggested by many organizational development models for improved productivity and positive growth. This involvement on the part of employees can be in any aspect namely financial decision making, job placement, desired training etc. The performance appraisal system is henceforth no exception. There is a dire need for success of any appraisal system that employees should participate in development of relevant performance criterions. The involvement of employees in the development of performance standards definitely leads to the formation of better performance appraisal system. Employee participation in appraisal system is such an aspect where we can find volunteer employees for devising the related benchmarks. Previous researches show that majority of the employees prefer that their performance be evaluated by an instrument developed and designed by themselves. The result is definitely the improved performance and involvement.

### **Company Profile**

Pakistan Telecommunication Company Limited (PTCL) is proud to be Pakistan's most reliable and largest converged services carrier providing all telecommunications services from basic voice telephony to data, internet, video-conferencing and carrier services to consumers and businesses all over the country. The company maintains a leading position in Pakistan as an infrastructure provider to other telecom operators and corporate customers of the country. In 1947, Pakistan telecom sector inherited British Posts and Telegraph Department and later separated the Post and became Pakistan Telephone and Telegraph in 1962. By 1991 this was further re-organized through the PTC Act 1991 opening this public sector to the private sector companies. In April 2006, Emirates Telecommunication Corporation, which is commonly known as Etisalat, assumed management control of Pakistan Telecommunication Corporation Ltd. Etisalat was able to get 26% ownership of the company.

With employee strength of sixty-five thousand employees and 5.7 million customers, PTCL is the largest telecommunications provider in Pakistan. PTCL also continues to be the largest CDMA operator in the country with 0.8 million V-fone customers. Right now PTCL is in transition phase and has regular as well as contractual employees. The appraisal process in PTCL is separate for regular and contractual employees.. So at this stage there are two appraisal systems running simultaneously in PTCL. For regular employees, the appraisal process mostly occurs once a year but in some cases it is done after a minimum of 3 months to a maximum of 3 years time period. The generic performance evaluation form is used which is a standard and used in all government sectors since a long time. This appraisal process is only for gazetted employees. For the employees of lower grades, this particular form is not used. Similarly, in smaller regions the formal appraisal process is not used for evaluating performance of employees. The senior officer just gives remarks about performance of his employees, on the basis of which his promotion and other services are given This is a top down appraisal process in which immediate boss initiates the appraisal process and then countersigned by another officer, usually the boss' senior. In PTCL, formal appraisal process for regular employees started since the Government of Pakistan started the ACR system; whereas for contractual employees, this appraisal process started when Etislat took over PTCL in 2006. For contractual employees, the appraisal process occurs once a year. This appraisal

process is for all contractual employees with any occupational groups. PTCL follow a top down appraisal process for contractual employees

**Data Analysis and Findings**

**Reliability Analysis**

Reliability Statistics	
Cronbach's Alpha	N of Items
.887	38

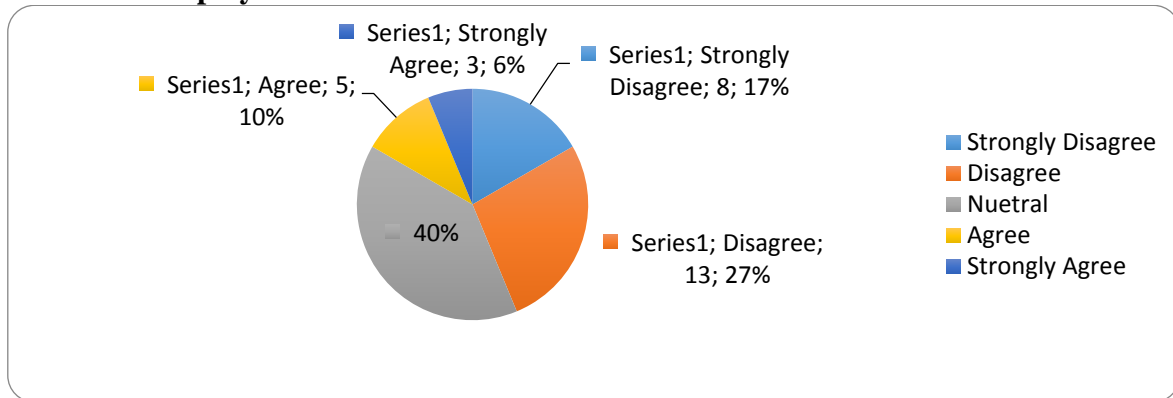
Reliability Statistics		
Cronbach's Alpha	Variable	N of Items
.876	Instrument Validity	7
.811	Distributive Justice	4
.604	Procedural Justice	7
.718	Goal Setting	6
.638	Performance feedback	6
.876	Performance based pay	5
.811	Employee participation	3

**Hypothesis Testing**

H0: The instrument validity of performance appraisal system is satisfactory.

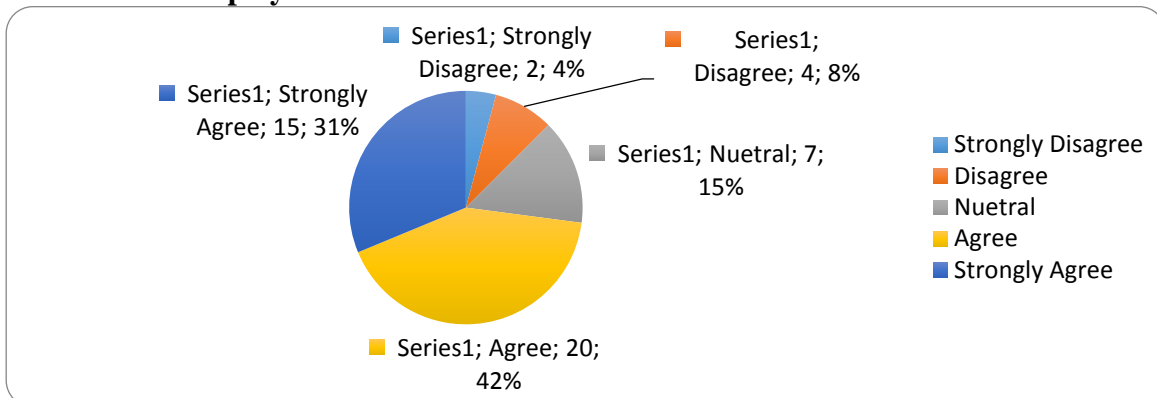
Ha: The instrument validity of performance appraisal system is not satisfactory.

**Permanent Employees**



N = 48      X = 2.6048       $\mu = 3$       S = 0.74976       $\alpha = 0.95$   
 Using Z-test,      Result: H0 is Rejected.

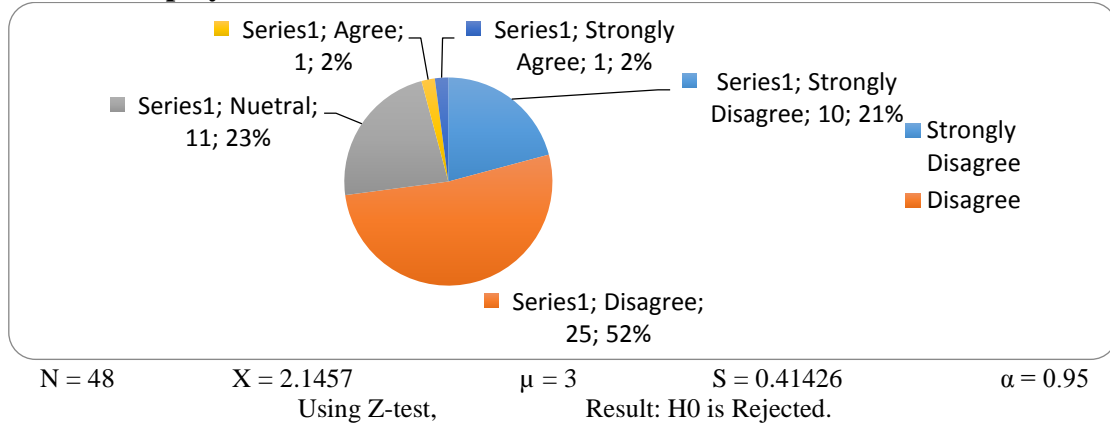
**Contractual Employees**



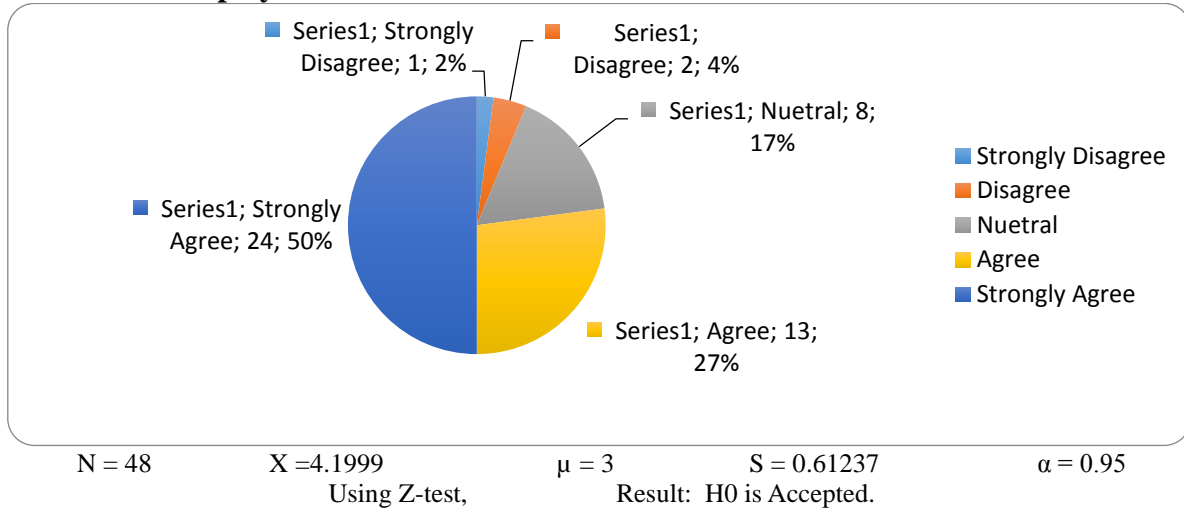
N = 48      X = 3.8646       $\mu = 3$       S = 0.99041       $\alpha = 0.95$   
 Using Z-test,      Result: H0 is Accepted.

H0: There is distributive justice in processes of performance appraisal system.  
 Ha: There is no distributive justice in processes of performance appraisal system.

**Permanent Employees**

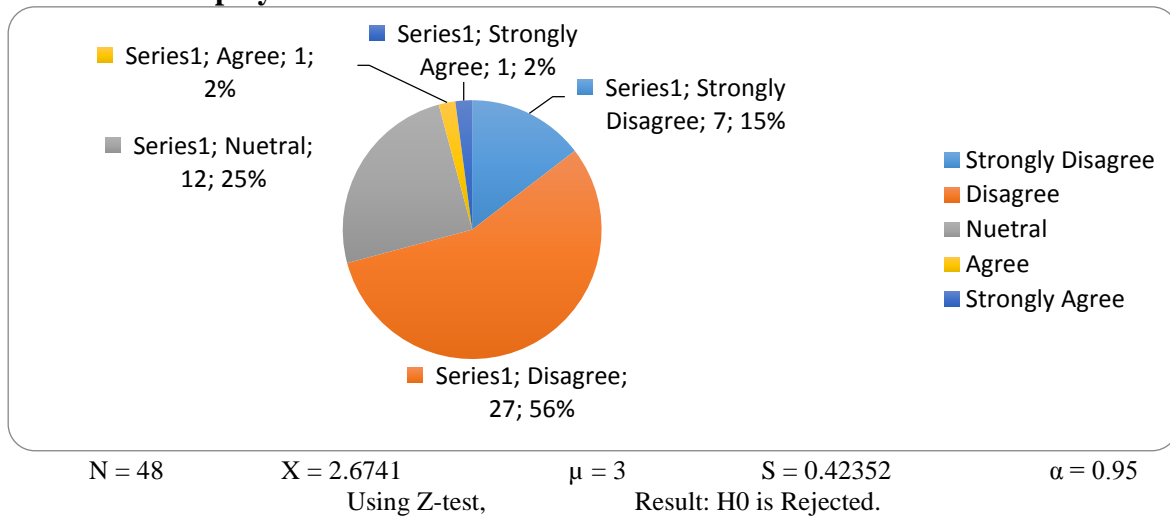


**Contractual Employees**

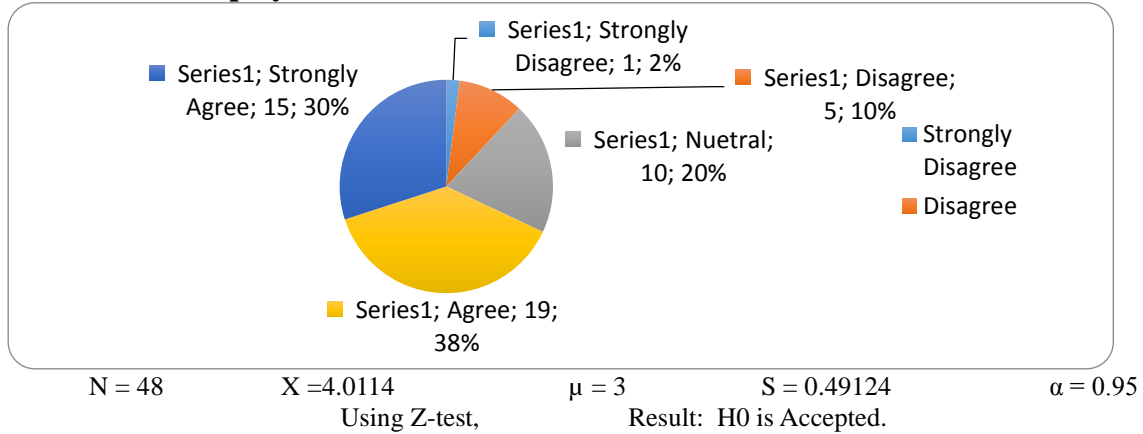


H0: There is procedural justice in implementation of performance appraisal system.  
 Ha: There is no procedural justice in implementation of performance appraisal system.

**Permanent Employees**

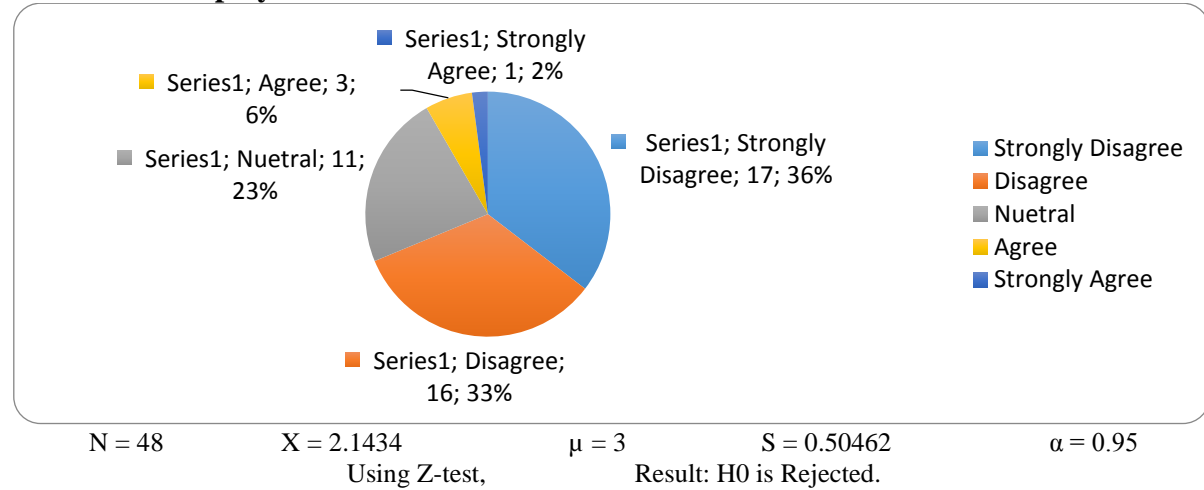


**Contractual Employees**

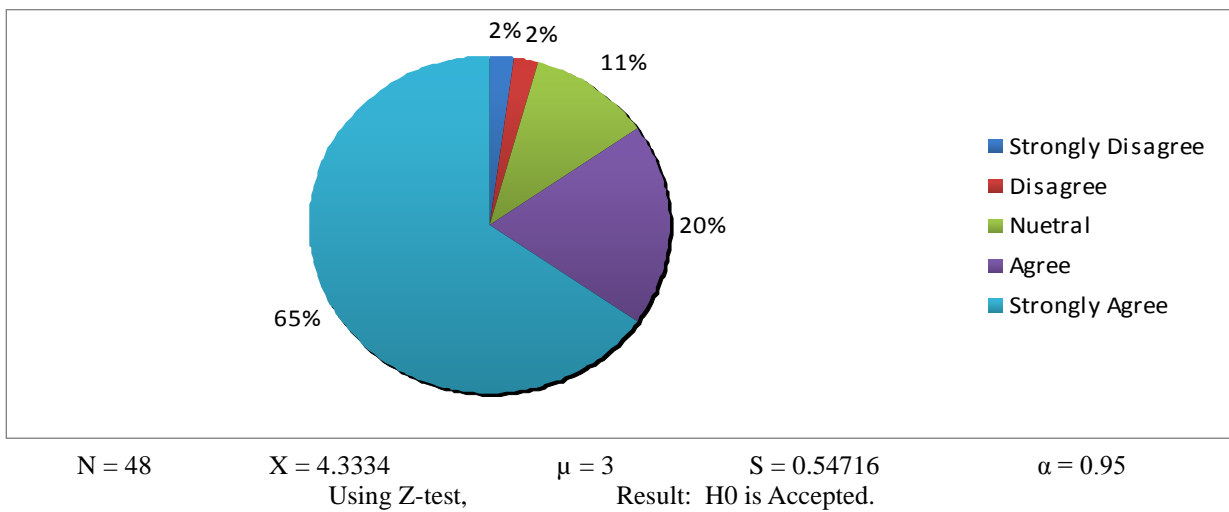


H0: There is proper goal setting in the performance appraisal system.  
 Ha: There is no proper goal setting in the performance appraisal system.

**Permanent Employees**

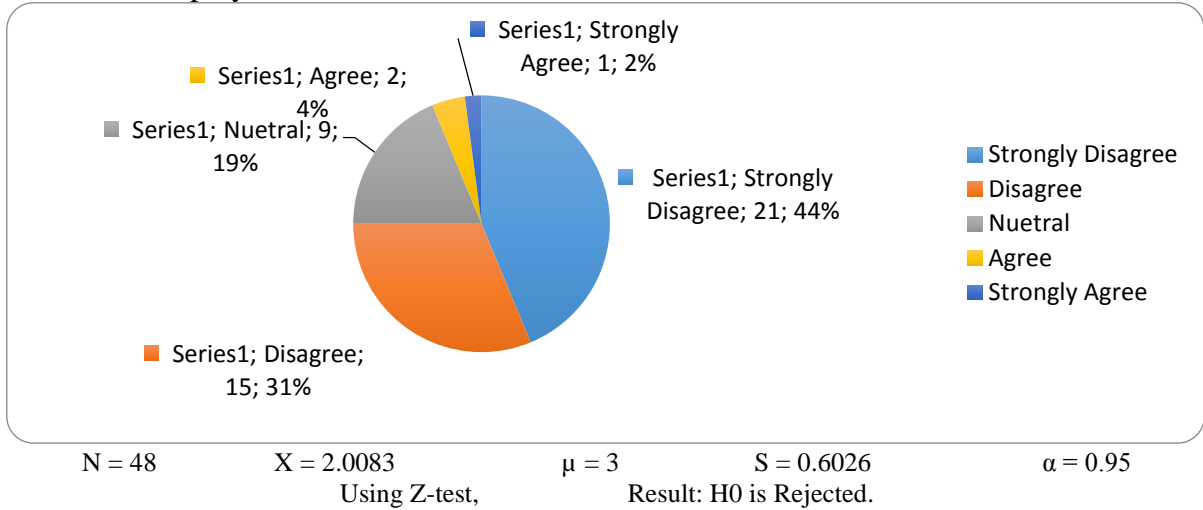


**Contractual Employees**

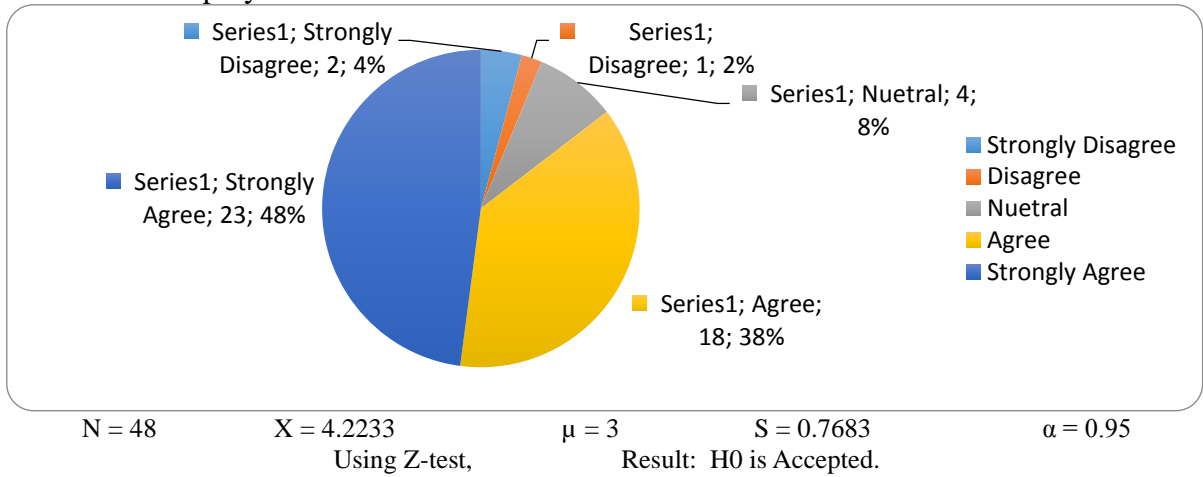


H0: There is adequate performance feedback in the performance appraisal system.  
 Ha: There is no adequate performance feedback in the performance appraisal system.

Permanent Employees



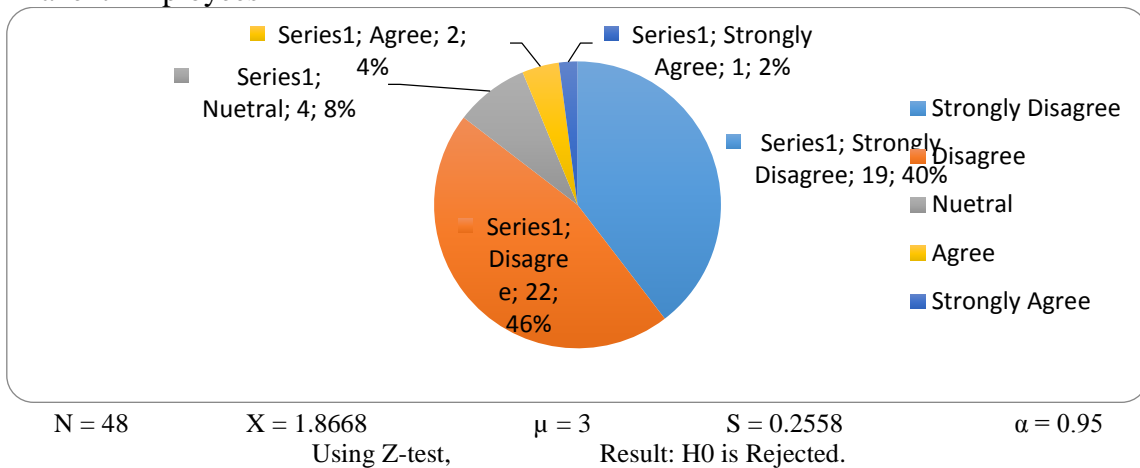
Contractual Employees



H0: There is strong linkage of pay with the performance appraisal system.

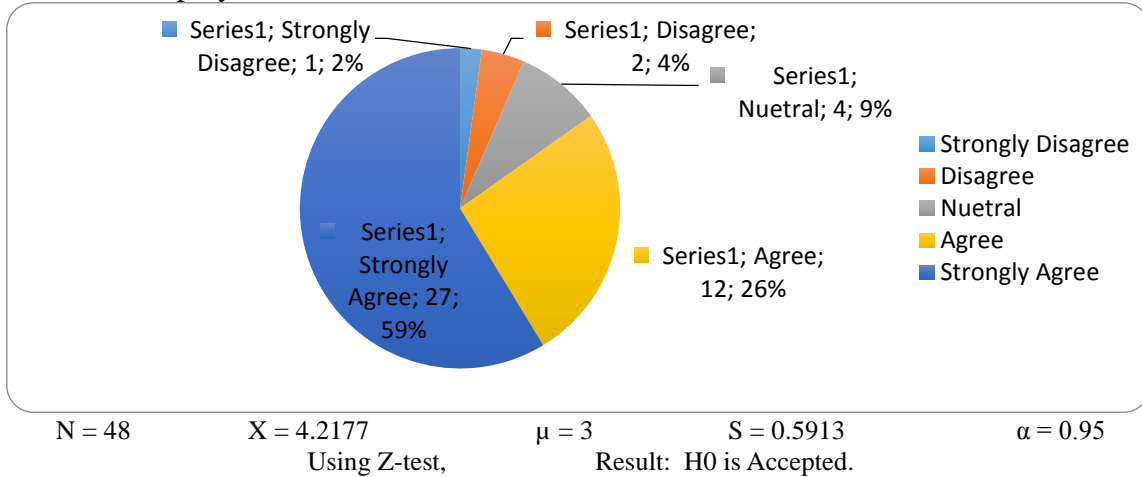
Ha: There is no strong linkage of pay with the performance appraisal system.

Permanent Employees





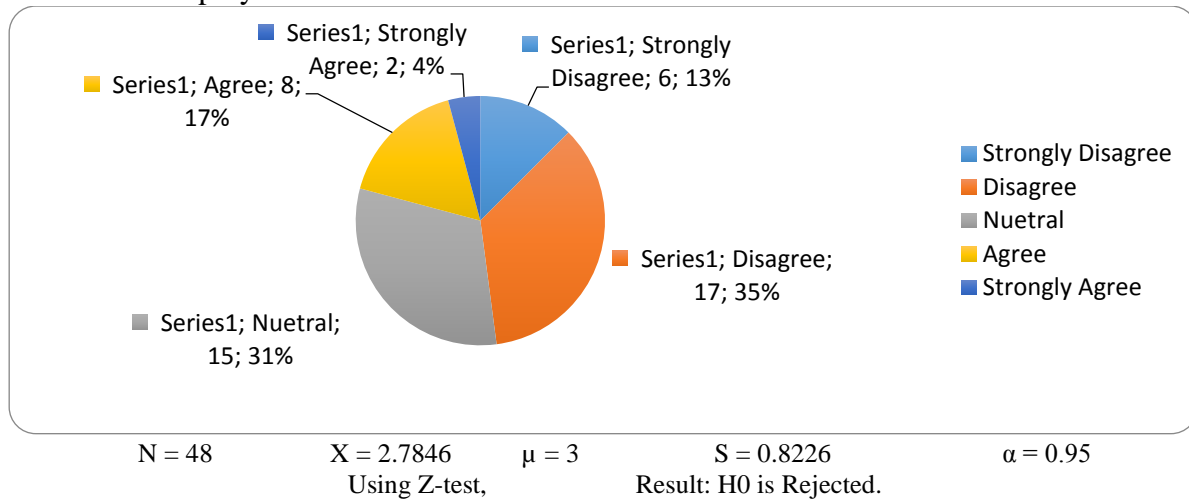
**Contractual Employees**



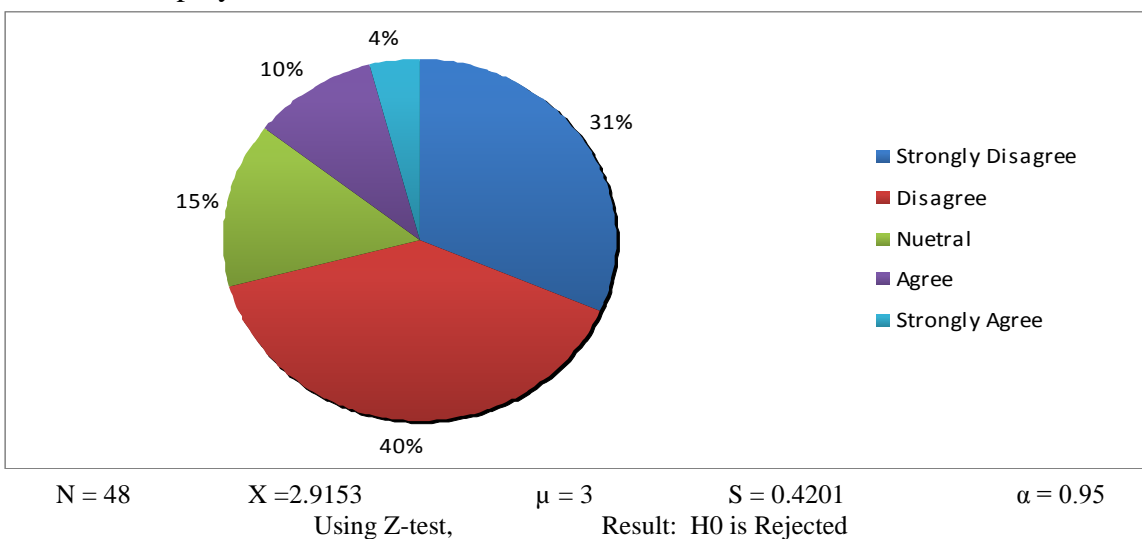
H0: There is employee participation in development of performance appraisal system.

Ha: There is no employee participation in development of performance appraisal system.

**Permanent Employees**



**Contractual Employees**



## Discussion

From this study it is clearly evident that performance appraisal system has many inherent characteristics which determine its effectiveness and subsequently its implications on employee performance. The employee perceptions regarding performance appraisal system are very significant in measuring overall effectiveness of the system and its impact on employee. From this study, it was revealed that there are considerable differences between the responses of permanent and contractual employees of PTCL. The data collection was started with recording the responses of permanent and contractual employees regarding instrument validity of performance appraisal system. The instrument validity determines whether the performance appraisal system has clear and valid measures of job related activities or not. The responses of permanent employees clearly indicate that they are not satisfied with the instrument validity of appraisal system. On the other hand, the contractual employees seem to be greatly satisfied with the instrument validity of performance appraisal system.

The distributive justice refers to whether the appraisal process results in a clear and unbiased appraisal or not. It broadly determines whether the best worker receives the highest evaluation scores or not. A great deal of contrast was again observed while recording the responses of permanent and contractual employees. The permanent employees were having little faith with regards to distributive justice in the appraisal system. On the contrary, most of the contractual employees termed the appraisal system as fair and unbiased process. The procedural justice classifies whether the supervisor possesses adequate knowledge and training to properly implement performance evaluation or not. It deals with the ethics of supervisor in assigning fair and unbiased scores to performers. This research indicates that the permanent employees don't have much faith in the skills and training of their respective supervisors with respect to evaluating them judiciously. The overall procedural justice in terms of responses of permanent employees was questionable where as the contractual employees expressed greater confidence in their evaluators and were found satisfied with the supervisor's ability to evaluate their performance.

In order to foster a culture of continuous positive development and self excellence, a formalized goal settings related to future tasks is paramount. An effective linkage of appraisal system with goal setting is essential for better performance. Our survey findings show that very slight percentage of permanent employees responded positively in terms of goal setting in appraisal system. On the other hand, the contractual employees responded quite favorably in this regard. Most of them said that their supervisor clearly expresses the goals and assignments for the next performance period. They have all the possibilities to discuss the goals and develop suitable course of action to achieve them. This not only provides them a confidence to work hard but also gives them a broader picture of the work unit and the organizational objectives. The essence of any performance appraisal system in vogue is undoubtedly the performance feedback. This research also focused on whether the performance feedback mechanisms in appraisal system are helpful in improving on the job performance or not. According to permanent employees, the performance feedback which they receive is vague and insufficient. They termed it just an annual formality with no considerable level of involvement by the appraiser. The contractual employees were of the view that the performance feedback they receive is sufficiently detailed and throughout the feedback process, they have the possibility to discuss work related issues with the supervisor. They also admitted to having received regular and timely feedbacks besides the annual appraisal activity. Most of them were greatly satisfied with the feedback mechanism and were of the view that level of involvement of their supervisors is also adequate.

Although there exists various never ending debates to associate performance appraisal system with direct financial rewards vis a vis the non financial rewards. However, it is widely

acclaimed that performance based pay based on performance ratings is the most effective method of motivating employees to improve & sustain their performance. This research indicates that there is no concept of performance based pay for permanent employees of PTCL. The appraisal system is only linked with promotion and not the pay. Contrary to this fact, a clear, direct and compelling linkage was found between performance and pay in case of contractual employees. According to them, there is a clear and reasonable established procedure for determining performance based pay. Most of them were of the view that the amount of performance based pay they can earn through high evaluation scores will definitely make a noticeable difference in their future performance. The involvement of employees in the development of performance standards definitely leads to the formation of better performance appraisal system. Employee participation in appraisal system was the only aspect of this research where identical responses were recorded from permanent and contractual employees. Both segments were of the view that there is no involvement of employees in development of appraisal system. Almost all the respondents agree that they would prefer that their performance be evaluated by an instrument developed and designed with the help of employees.

All the above mentioned attributes of appraisal system ultimately have its implications on employee performance. As it is clearly evident from the study that contractual employees are highly satisfied by implementation of the appraisal system. An effective linkage of their appraisal with pay, promotion and training serves as an impediment of motivation which is subsequently reflected in their performance. The appraisal system is effectively ensuring their deserved remuneration package as well as the career development. On the other hand, the results of the study show that appraisal system is just an annual formality for the permanent employees. Their appraisals have no bearing on their remuneration package. Their perceptions about their appraisal system were found to be quite low. The implication of it is definitely on their performance. The less significance of appraisal system in the minds of employees ultimately fosters a culture of underperformance.

## **Conclusion**

Privatization of PTCL was the largest bidding activity in the history of Pakistan. PTCL was sold to Etisalat at a loss of Rs. 23.64 billion. The privatization of PTCL offered an opportunity to PTCL employees to quit the regular government job and join on contractual basis. The attraction created was high salary of contractual employees. PTCL is still in the transition phase where both regular as well as contractual employees work side by side. The Permanent employees are evaluated through a standard performance appraisal system used by all the government institutions. The performance evaluation criteria is different for contractual employees and they get fast promotions based on their appraisal as compared to regular employees who get promoted after obtaining certain score and spending a certain years on their post. The dual systems working in parallel have created many problems. The contractual employees getting fast promotions become the bosses of their previous superiors that inculcate a sort of de-motivation in regular employees. There is a clear lack of interest and dissatisfaction among permanent employees regarding their performance appraisal system. However the contractual employees seem to be quite satisfied with their appraisal system. This differentiation and residency of more than one system in an organization tends to spread jealousy and at the same time demotivate the employees which ultimately affects their performance. In case of regular employees, the performance evaluation forms are not used judiciously and transparently. Employee's private relationships with its boss also play a major role in assessing the performance.

On the basis of this research, it can be concluded that the perceptions of permanent and contractual employees regarding the performance appraisal system vary in a great deal. These two segments of employees are totally opposite to each other in terms of their views

about the fairness, transparency, utilization and significance of performance appraisal system. Subsequently, their respective perceptions have strong implications on their overall performance. The appraisal system is fostering the culture of underperformance into the permanent employees. This can be considered as a major factor of PTCL not being able to build up a solid corporate entity even after years of being privatized.

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