Chapter 2 : Literature Review

This chapter briefly describes the meanings, antecedents and consequences of the variables used in this research. Furthermore, literatures were reviewed and based on the reviews, the hypothesis were developed. Finally, the theoretical framework for this research was shown.

2.1 Definitions of Organizational Commitment

Organizational commitment is conceptualized by Allen and Meyer (1990) into three dimensions: (1) **attitudinal or affective commitment**, which is drawn from positive work experience, (2) **continuance commitment**, which is derived from prior investment and possible cost of leaving the organization, and (3) **normative commitment**, which is loyalty, or sense of obligation to remain attached to the organization. All three dimensions, co-existing simultaneously (Wasti, 2005), point to a psychological attachment to the organization, with normative commitment found to be highly correlated with affective commitment. Moreover, Angle and Lawson (1993) noted that individuals with a positive view of being committed to an organization tend to internalize the organization's values as their own and eventually develop affective commitment to the organization.

While the three dimensions of organizational commitment are important, this research focuses on affective organizational commitment (AOC), in which commitment is considered as an affective or emotional attachment to the organization (Meyer & Allen, 1991). AOC is the highest level of commitment that is said to be the most sought after form of commitment by organization. This form of commitment is the most influential one because employees with high AOC stays in an organization because they want to and not because they have to.

According to Mowday, Steers and Porter (1979), such organizational commitment exists when an individual identifies with the organization (Agarwal & Ramaswami, 1993; Sheldon, 1971), or when an individual has goals that are congruent with organizational goals (Hall, Schneider & Nygren, 1970) or when the individual believes his/her attachment to the organization can bring reward or payment from the organization. The idea was later referred to as "affective organizational commitment"

(Meyer & Allan, 1991). This definition adds an emphasis on intention to put organizational affection into action. The action aspect of organizational commitment is what inspires researchers to predict for this attitude outcomes such as better job performance or lower turnover and absenteeism (e.g. Guzley, 1992; Baugh & Roberts, 1994). Sacrificing and sharing behaviours in the work place are seen as outcomes of commitment as well (Randall, Fedor & Longenecker, 1990). Furthermore, Hsiao and Huang (2007) proposed that the reason of remaining on the job is a key antecedent of affective organizational commitment in personal characteristic based on the motivation theory.

For the purpose of this research, affective organizational commitment will be defined as the personal attachment an employee has towards his/her organization.

Organisational commitment is often associated with job effectiveness, level of satisfaction and the employees' intention to quit or stay with their organisations. Individuals with higher level of commitment to the organisation are more likely to put in efforts to add value to the organisation. They would be more willing to contribute their ideas, cooperate with their superiors, follow instructions and directives from the management and engage themselves in activities that they perceive as beneficial to the organisation as a whole. As such, employees with strong organisational commitment are definitely desirable and subjects related to factors contributing to organisational commitment would inevitably be of interest to employers and managers.

2.2. Definition of HRM Practices

HRM practices and policies have been suggested as influencing factors that increase OC among employees (Ogilvie 1986; Arthur 1994; Meyer and Smith 2000; Agarwala 2003). According to Ogilvie (1986), when employees believe that the organization is sincerely concerned about their welfare and recognizes their contributions, they believe that the organization will provide a variety of symbolic and tangible rewards in exchange for their efforts and commitment. Hence, based on the social exchange theory, HRM practices were proposed as a practical approach to develop employee commitment, and significant positive relationship between HRM practices and OC was found. While demonstrating that HR practices significantly influenced business results, Yeung and Berman (1997)

emphasized that the relationship was stronger for those HRM practices that built employee commitment (Agarwala 2003). Meyer Paunonen, Gellatly, Goffin and Jackson (1989) found that it is important for organizations to examine the HR practices they implemented in order to increase commitment. Indeed, OC was found to have a positive relationship with training (Bartlett 2001), salary levels (Ritzer and Trice 1969), and performance reward contingencies (Rhodes and Steers 1981). Few scholars have proposed the idea that organizations can use several tools, such as benefits, communication, incentives, etc., to build employee commitment (Meyer and Smith 2000; Ogilvie 1986). Most of the empirical evidence linking HRM practices to organizational commitment focuses on single HR practices, such as reward systems, selection practices, etc., rather than the HR system as a whole (Agarwala 2003). Agarwala (2003) also states that research evidence on the relationship between innovative HRM practices (high commitment HRM practices) and employee attitudes is still very limited. Since most of the prior studies in this area have been theoretical, this study makes an attempt to fill this gap.

2.3 Definitions of Performance Appraisal (PA)

Performance Appraisal - much have we heard of this word yet many failed to understand what it means (Scholtes, 1993). There are various authors, leaders, managers and gurus who have defined PA according to their knowledge. But again, this buzz word appears to be mere a jargon to the ordinary people on the street (Scholtes, 1993). Probably, the differences in the definition of the word itself are due to the scale of impact it has caused to the people, organization, economy and so forth, individually (Kumar, 2005; Pettijohn et al., 2001).

The existence of the PA principles has been observed since early 1900s (Vance et. al, 1992). At that point of time, it was designed to support a top-down, control-oriented style of management. Vance (1992, p.315) noted that PA is a "control system that is used by almost all organizations to specify the behaviour that employees must perform in accordance with the organizational objectives". It enabled corporations to retain control over their employees, develop the employees, individually as well as team centered and involved the employee in setting goals for the organization (Mount, 1983;

Vance et. al, 1992). Furthermore, PA served as a "tool for managing the effectiveness and efficiency of employees" (Spicer & Ahmad, 2006, p.214). Coutts and Schneider (2004, p.67) noted PA as a "vital component of a broader set of human resource practices; it is the mechanism for evaluating the extent to which each employee"s day-to-day performance is linked to the goals established by the organization". Lowenberg and Conrad, (1998), observed similar initiative. These reviews suggested that PA functioned as a tool for administrative purposes within an organization.

On the other hand, some other authors suggested that PA was more of a tool that carried employees" developmental purposes. Murphy and Cleveland (1995) defined PA system as a tool that accomplished specific goals, such as self-enhancement or improvement of relationships with subordinates. Moreover, PA acts as valuation reference to reward employees, both intrinsically and extrinsically, and thus improve the employees" performance by continuous communication and feedback between both the employee and the organization (Vance et. al, 1992). Boice and Kleiner (1997, p.197) noted that PA was "most commonly undertaken to let an employee know how his/her performance compares with the supervisor"s expectations and to identify areas that require training or development.

Common to most definitions of PA is the concept of improving performance and developing people, although its use in organizations continues to be varied. Some other definitions of PA are as stated below:

a) PA is defined "as a tool to identify and monitor staff's competences, as well as taking into account a company's core competence and external demands" (Ubeda & Santos, 2007, p.110).

b) PA is defined "as a structured formal interaction between a subordinate and his/her superior. It usually embraces of a periodic interview, in which the work performance of the subordinate is examined and discussed" (Arbaiy & Suradi, 2007, p.195).

c) PA is a "central management process, which means that it needs to be linked to such activities as business planning, clinical audit, etc" (Edmonstone, 1996, p.12).

d) PA is defined "as a tool to achieve a variety of human resource management objectives" (Kumar, 2005, p.1).

2.4 Performance Appraisal in Malaysia

The implementation of PA in Malaysia has taken place almost a couple of decades ago. The evidence can be found from several articles (e.g. Ahmad & Ali, 2004; Halim, 1996; Kumar, 2005; Poon, 2004; Vance, McClaine, Boje & Stage, 1992) which describe the implementation of performance appraisal in Malaysia. From the review of these articles, PA in Malaysia can be divided into 3 different stages, which is shown in Figure 2.1 below.
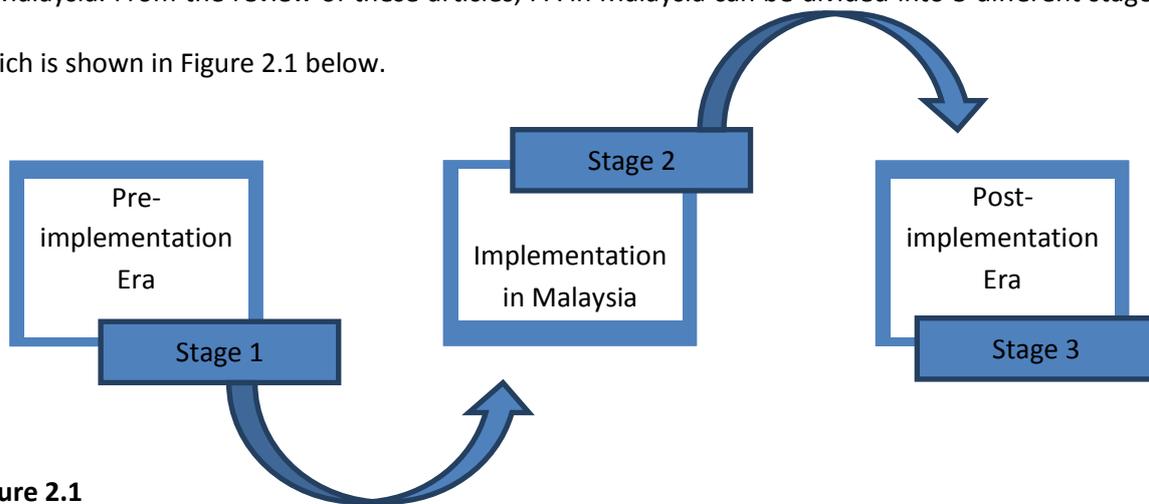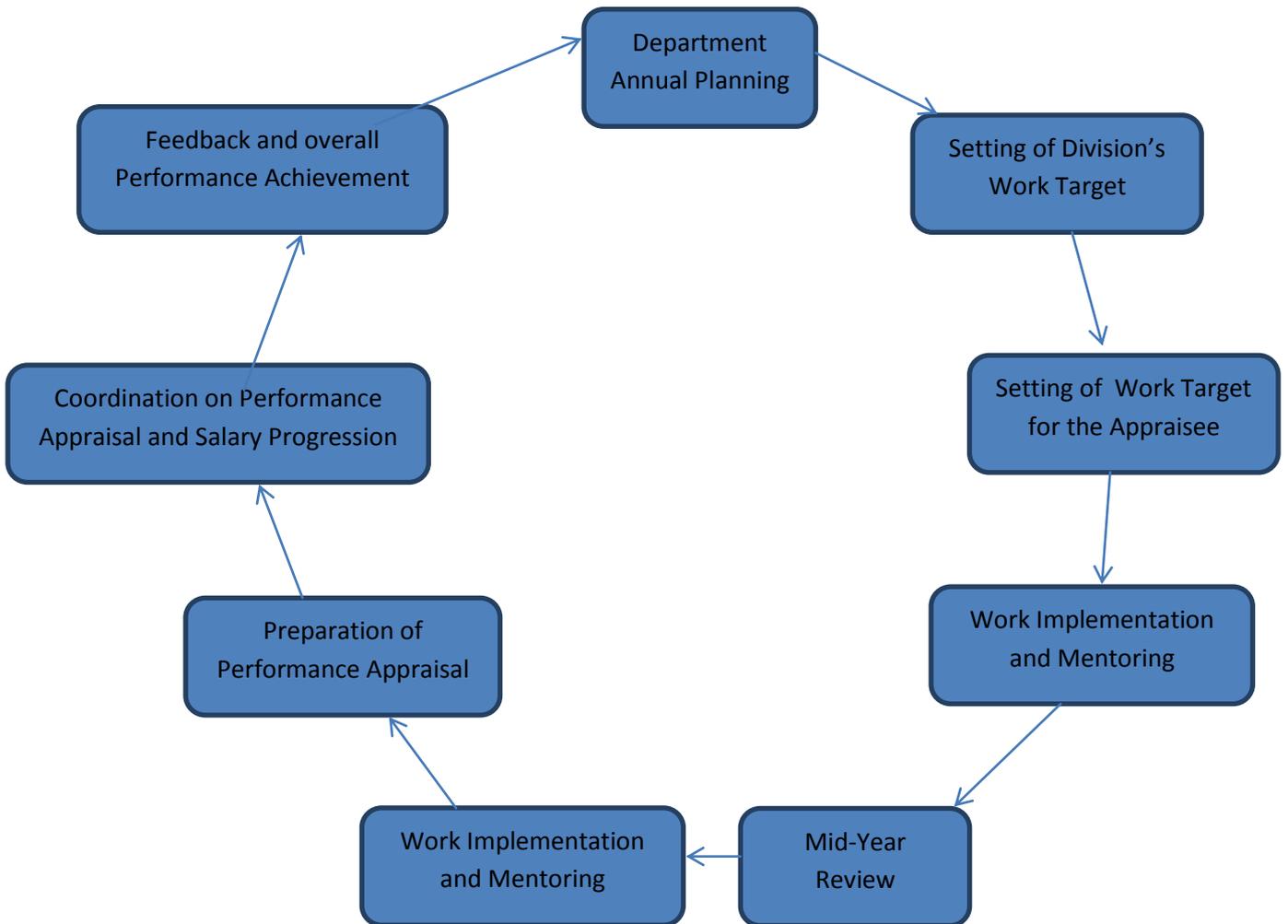
Figure 2.1

The stages of PA implementation in Malaysia

The pre-implementation era refers to the years between early 1980s to the year of 1990. In this phase, there were concerns about the implementation of performance appraisal system in Malaysia and the benefits that Malaysians can gain with the implementation of this system. Hence, some researchers conducted feasibility studies to identify the value of the PA system towards our nation. One notable study was by Vance et al., (1992). The authors conducted a general management survey on perceptions of national management style on managers representing diverse industries from countries such as Indonesia, Malaysia and Thailand. The study was based upon the question on "should traditional principles that guide the design and management of performance appraisal systems in Western countries be transferred to the Pacific Rim countries, how the management styles would differ between these countries?"

The purpose of the study was to enhance management assignment effectiveness by gaining a clearer understanding of how countries culturally-based management style differences influence the appropriate design and implementation of performance appraisal systems. The study highlighted that there exist a significant difference in the perceived predominant management styles among United States and the three Pacific Rim countries. Furthermore, the author concluded that the enhanced understanding in the management style differences will help to develop prescriptions for the design of performance appraisal systems within these three countries.

The second stage, which began in early 90s, describes the implementation of PA systems in Malaysia (e.g. Ahmad & Ali, 2004; Halim, 1996). Muhammad Rais, (1995) in his article "Improving the Efficiency of the Public Sector: A Case Study of Malaysia" noted that a common criticism of the public towards the public sector has been the poor quality of service rendered by the client/counter service staff. Thus, in 1992, Malaysia, as part of its administrative reforms efforts, introduced a new performance appraisal system which aims to improve the public sector in achieving higher productivity and service quality. In this system, emphasis is given to performance-based appraisal system which allowed development of action plan to coach and counsel employees on a continuous basis. "The most notable features of the system includes the need to set annual work targets and standards of performance between the manager and subordinate, a mandatory mid-year review of the work performance in relation to the target set, the use of different appraisal forms for different categories of employees according to grades, and the setting up of a Panel on the Coordination of Performance Appraisal and Salary Progression in each ministry/agency to ensure fair, transparent and objective appraisal and the selection of excellent employees for reward and recognition" (Halim, 1996, p.341). The cycle of performance management, appraisal and salary progression under this system is shown in Figure 2.2 below:

Source: Public Service Department, 1996 (as cited in Ahmad & Ali, 2004)

Figure 2.2

Cycle of performance management, appraisal and salary progression

The third stage, which is the post-implementation era, discusses the issues in the implementation of the PA system and the effect on job satisfaction, turnover intention and decision making process. Poon (2004) conducted a study in an attempt to examine the effects of perceptions of performance appraisal politics on job satisfaction and turnover intention. The author concluded that "when employees perceived performance ratings to be manipulated for affective reasons such as personal liking and for the purpose of punishing employees, they experienced reduced job satisfaction" (Poon, 2004, p.329). Furthermore, these perceptions by the employees do influence the employees" intention to quit their job, indirectly through reduced job satisfaction. On the other hand, if the

employees perceived that performance ratings are manipulated for the purpose of rewarding employees and to promote a positive workgroup climate, their job satisfaction and turnover intention will not be affected (Poon, 2004).

Another notable study which was carried out in the post implementation era would be by Kumar (2005). While Poon (2004) conducted a study to examine the effects of perceived PA politics on certain aspects of employee outcomes, Kumar (2005) conducted a study to explore the issues associated with the key components of PA system, after which it has been implemented in Malaysia. According to the author, in order to conduct an effective and formal PA process, the managers must be well equipped with required rater skills. The study also examines the types of rater training programmes which are available for managers to enhance their rating skills. The author quoted "that the managerial skills necessary to conduct an effective performance appraisal are indeed complex and, yet, highly interrelated and require attention to properly develop" (Kumar, 2005, p.3).

2.5 Definitions of Training and Development

According to Armstrong (2006) "Training is a systematic and planned instruction activities to promote learning" (p. 575). It involves the use of formal processes to impart knowledge and help people acquire the skills required for them to perform their jobs satisfactorily. The focus of training is on practical skills and is concerned with applying and implementing techniques and processes. Therefore, training is investing in staff members to enable them to perform well and empower them to utilise their best natural abilities. The objectives of training are to develop the skills and competences of employees to improve their performance; to help staff members grow within the organisation in order for the organisation to meet its future human resource needs and ensure that they become fully competent.

Development, according to Noe, Hollenbeck, Gerhart & Wright (2004), means not necessarily related to the employee's current job. Instead, development prepares them for other positions in the organisation and increases their ability to move into jobs that may not yet exist. Development may also help employees prepare for changes in their current jobs, such as changes resulting from new technology, job enlargement or customer requests. Development therefore is about preparing for change of new jobs, new responsibilities, or new requirements.

Lundy et al (2004) also observe that it must be clear that the processes of education, learning, training and development are inextricably linked. However, they share many common principles, e.g., learning theories, assessment and evaluation, and design of programmes, and so there is the need for synthesis. He further reiterated that each individual matures over a lifetime and that development is the process, which can enable employees to reach a personal full potential. Development is therefore, for the most part, long term in focus.

Huselid (1995) also notes that providing formal and informal training experiences, such as basic skills training, on-the-job experience, coaching, mentoring and management development can further influence employees' development and hence, their performance. Training, when well done, will increase productivity and in the end profits of the organisation would be maximized. Dessler (2003) also sums up how training and development influences corporate performance by arguing that developing human capital through continuing training may increase the productive output from each employee either through improvement in skill level or through improvement in morale and job satisfaction.

Traditionally, the organizational career describes the hierarchical, upward-oriented promotion of an individual in the organization. Until the early eighties this promotion took place in the organizational hierarchy, starting with entry positions and then moving through middle and upper management until top management ([Peiperl and Baruch, 1997] and [Schein, 1978]). The organizational frame for the creation of career opportunities is called career path model or career path (Baruch, 2004). Every step in the career path is accompanied by individual incentives, qualification and personnel development measures. Only with a goal-oriented and balanced career path planning, organizational interests with respect to needed resources and individual interests with respect to further development can be aligned.

2.6 Definitions of Turnover Intentions

Employees" turnover is a much studied phenomenon. But there is no standard reason why people leave organization. Employee turnover is the rotation of workers around the labor market; between firms, jobs and occupations; and between the states of employment and unemployment (Abassi & Hollman, 2000). The term "turnover" is defined by Price (1977, p.13) as "the ratio of the number of organizational members who have left during the period being considered divided by the average number of people in that organization during the period." In most cases, turnover is referred as the

entire process associated with filling a vacancy. "Each time a position is vacated, either voluntarily or involuntarily, a new employee must be hired and trained; and this replacement cycle is known as turnover" (Price, 1977, p.13). This term is also often utilized in efforts to measure relationships of employees in an organization as they leave, regardless of reason. Some other definitions of turnover intentions are as stated below:

a) Turnover intentions are the thoughts of the employee regarding voluntarily leaving the organization (Schyns, Torka & Gossling, 2007; Singh, Verbeke & Rhoads, 1996; Whitman, 1999).
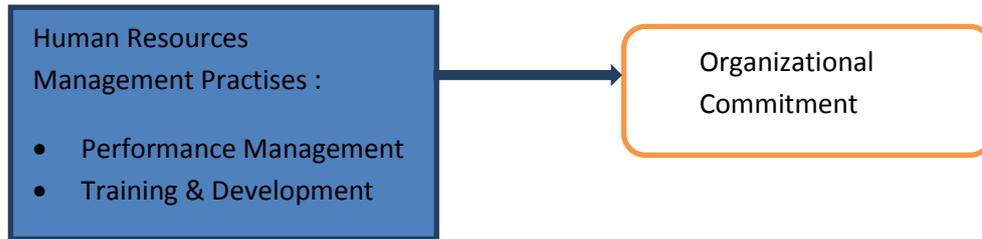
b) Turnover intention is an individual own estimated (subjective) probability that they are permanently leaving the organization at some point in the near future (Vandenberg & Nelson, 1999, p.1315).

c) Turnover intentions are conceived as a conscious and deliberate decision to leave the organization (Tett & Meyer, 1993, p.262).

As we can see, most definitions refer to a similar meaning – an employee's intentions to leave an organization. This study adopts turnover intention in preference to turnover as one of the dependent variable because turnover intention is highly correlated with turnover and the adoption of turnover may have a "survival" bias (inability to gather enough data to conduct a proper and thorough research) and thereby lead to an incorrect conclusion (Hwang & Kuo, 2006). Accordingly, turnover intention was chosen as the better analytical variable in this research.

2.7 Theoretical Framework

The conceptual models are presented in Figures 2.3a and 2.3b.

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┌─────────────────────────┐                    ┌─────────────────────────┐
│ Human Resources         │                    │                         │
│ Management Practises :  │───────────────────▶│   Organizational        │
│                         │                    │   Commitment            │
│ • Performance Management│                    │                         │
│ • Training & Development│                    └─────────────────────────┘
└─────────────────────────┘
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H1 =Performance Appraisal will positively influence Organizational Commitment

H2 = Training and Development will positively influence Organizational Commitment

Figures 2.3a

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┌─────────────────────────┐          ┌─────────────────────────┐
│   Organizational        │─────────▶│   Turnover Intention    │
│   Commitment            │          │                         │
└─────────────────────────┘          └─────────────────────────┘
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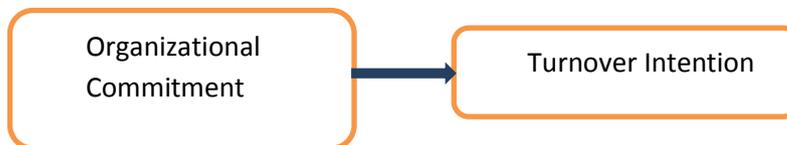
H3 = Organizational Commitment will negatively influence Turnover Intention

Figures 2.3b

2.8 Performance Appraisal with Organizational Commitment

PA process help clarify organizational expectations regarding an employee's activities, actions, and results. "If an employee does not know what he has the authority to decide, what he is expected to accomplish, and how he will be judged, he will hesitate to make decisions and will have to rely on a trial and error approach in meeting the expectations of his superior" (Rizzo, House & Lirtzman, 1970, pg. 154).

This relationship is supported by Jaworski and Kohli (1991), who contend that managerial feedback informs salespeople of the expected results and their performance as it pertains to these expectations. This clarity increases focus, which in turn increases performance and satisfaction. Thus, in their clarifying role, PA reviews are often credited with reducing role ambiguity, which leads to higher levels of job satisfaction and affective organizational commitment (Babakus, Cravens, Johnston & Moncrief, 1996).

Kuvaas (2006) noted that PA activities can be used by organizations to communicate organizational strategies, goals and vision to their employees. Moreover, the affective and emotional aspects of super-ordinate goals may capture the "hearts of employees and give people a cause they can rally around" (Latham, 2003, pg. 311). Therefore, it is possible for employees to experience higher levels of commitment because PA activities are able to communicate super-ordinate strategies, goals and vision to them. Thus, the employees may become more effectively committed to their organization.

Working competitively involves placing high value on people, considering their experiences, ideas and preferences. Their participation in organizations seems to be necessary because employees and managers have to discuss a company's objectives together. It is fundamental to consider not only the staff's specific qualifications needed for the positions in the organizational structure, but also their knowledge, experiences, skills and results for future innovations. These competences, which are identified by PA in all the hierarchical levels of an organization, are important aspects concerning the success of a company's competitive strategy (Ubeda & Santos, 2007).

Levy and Williams (2004) noted that PA activities have potential to increase employees' perceptions of being valued by the organization, a perception which is central to affective organizational commitment.

Furthermore, Lee and Bruvold (as cited by Kuvaas, 2006) noted that employees will probably show higher affective commitment to the organization if they perceive that PA activities reflects employee's development. Roberts and Reed (1996) noted that PA satisfaction may be positively related to affective commitment due to the enhance employee participation and perceived clarity of goals within the PA process.

Therefore, the following hypothesis is stated:

Hypothesis 1: Performance Appraisal will positively influence organizational commitment.

2.9 Training and Development with Organizational Commitment

Kooij et al. (2008) suggested that continuing career development (providing training opportunities), job content changes (assigning workers to new roles), and ergonomic adjustments (offering flexible work conditions) are HRM practices that could fit workers' needs.

In fact, research has shown that, employees express strong needs for seeing their skills recognized, for being respected by coworkers and management, and for being involved in continuing education activities (Armstrong-Stassen, 2008; McEvoy & Blahna, 2001).

This suggests that workers may tie their job satisfaction and work motivation more closely to intrinsic aspects of their job than is generally thought. Of course, extrinsic factors, such as financial, health, and family issues, may be important as well; however, workers' needs on the provision of training opportunities, assignment to new roles, and flexible work conditions as practices that may keep them employed.

Aside from HRM practices that constructively address workers' needs, some organizations have developed practices directed at reducing personnel costs.

The present study examines how providing training and development opportunities relate to workers' organizational commitment. Yet although it is necessary to allow all employees to get access to training, previous research suggests that training opportunities are not always distributed in a fair and equitable way (e.g., Barth, McNaught, & Rizzi, 1993; Saba & Guerin, 2005).

Conversely, the opportunity to develop skills and competencies may facilitate workers' commitment (Maurer & Rafuse, 2001) because the availability of training is a strong signal that the organization is willing to "invest" in its workforce.

Not surprisingly, Meyer and Smith (2000) found that evaluations of career development practices, including opportunities for personal development, were the best predictors of affective commitment among employees in general. Maintaining and/or developing one's skills is, indeed, highly valued by workers (Kooij et al., 2008).

Therefore, the following hypothesis is stated:

Hypothesis 2: Training and Development will positively influence organizational commitment.

2.10 Organizational commitment and intention to leave

Based on the social exchange theory and norm of reciprocity (Shore and Tetrick 1991), when employers acknowledge their employees' efforts by offering opportunities and benefits, employees may feel obligated to reciprocate and become more committed to the organization (Tansky and Cohen 2001).

Intention to leave refers to the subjective estimation of an individual regarding the probability of leaving an organization in the near future (Mowday, Porter and Steers 1982). It is considered as a conscious and deliberate desire to leave the organization within the near future and as the last part of a sequence in the withdrawal cognition process (Mobley, Horner and Hollingsworth 1978). Carmeli and Weisberg (2006) studied three elements in the withdrawal cognition process, thoughts of quitting, the intention to search for another job elsewhere, and the intention to quit, but not the element of turnover itself.

Organizational commitment has been studied by scholars (Meyer and Allen 1987; Meyer et al. 1993) and has been conceptualized and measured in various ways. Common to all the conceptualizations of commitment is the link with turnover that shows that employees who are strongly committed are those who are least likely to leave the organization (Allen and Meyer 1990; Tett and Meyer 1993). According to Mowday et al. (1982), employees committed to an organization tend to strongly believe and accept the organization's goals and values, exert considerable effort on behalf of the organization, and maintain membership in the organization. Based on theoretical literature, Agarwala (2003) argued that employee commitment led to improved individual and organizational performance.

There have been several studies confirming the important role of OC in influencing intention to leave (Udo, Guimaraes and Igbaria 1997) and OC's negative relationship to intention to leave (Igharia and Greenhaus 1992; Meyer et al. 1993; Loi et al. 2006).

Therefore, we propose the following hypothesis.

Hypothesis 3: Organizational commitment will have negative effects on employees' intention to leave.

2.11 Conclusion

This study represents a relatively modest attempt to examine the linkage between employees' perceptions of HRM practices namely Performance Appraisal and Training & Development, and their attitudes (in the form of organizational commitment). It further examines the relationships of Organizational Commitment and Turnover Intention. The findings from the current research suggest that employees' perceptions of the extent of the HRM practices implemented by their organizations serve as direct predictors of their commitment to those institutions. Nevertheless, by using a non-western sample to test our hypotheses, we have been able to provide evidence to say that the findings concerning HRM practices which have been shown to have direct as well as indirect effects on commitment in Western societies as discovered by previous researchers (Meyer & Smith, 2000; Ogilvie, 1986) also hold true within the context of Malaysia, a country that embraces an Eastern cultural heritage.