

A Study on the Impact of Employee Performance Appraisal on Employee Satisfaction and Loyalty

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Abstract—The paper discusses the importance of employee satisfaction and loyalty, focusing on performance improvement, team stability, and core competitiveness. It analyzes the factors affecting employee satisfaction and loyalty through performance appraisal and proposes strategies to maintain fair appraisal and enhance satisfaction and loyalty. The suggestions aim to improve fairness in appraisals, employee satisfaction, and loyalty, fostering a stable and motivated workforce.

Index Terms—Satisfaction, staff performance, loyalty

I. INTRODUCTION

Employee performance appraisal has a significant history and has produced industry-recognized research results. Enhancing employee satisfaction and loyalty is crucial for effective human resources management and ensuring inspired and stable teams. Developing a competent workforce is essential for sustainable enterprise growth in the knowledge economy era. However, many companies face challenges such as low job satisfaction, burnout, instability, and low employee loyalty. To address this, managers must invest in improving workforce satisfaction and loyalty. This study focuses on the impact of performance appraisal on satisfaction and loyalty, urging companies to consider factors such as fairness and develop practical strategies to improve satisfaction and reduce turnover for company development. Comprehensive research is needed to explore the various factors influencing employee satisfaction and provide insights for effective enhancement.

II. LITERATURE REVIEW

A. Definitions of the Literature

1) Employee satisfaction

The investigation of employee satisfaction has been an ongoing topic, initially introduced through the Hawthorne experiment, which revealed the significant impact of employee emotions on their work efficiency. Employee satisfaction not only affects their work motivation but also reflects their subjective and objective evaluation of the company they work for. An American scientist, defined employee satisfaction as the degree of recognition and emotional evaluation of the work, treatment, and work environment. It essentially represents the sense of belonging employees have towards their organization, explained through psychological theories. Over time, subsequent scholars have expanded and refined the definition of

employee satisfaction. The evolution of employee satisfaction can be roughly outlined as follows:

1. Initial definition: A one-sided view focusing on employee satisfaction with work treatment and the working environment, lacking analysis of emotional aspects.

2. Extended definition: Inclusion of emotional aspects and examination of the impact of subjective emotions on employee satisfaction from a psychological perspective, resulting in more objective and equitable findings.

Research has found that there is often a gap between employee expected and actual values in their work, and this gap has an inverse relationship with employee satisfaction. Smaller gaps correspond to higher work efficiency and greater employee satisfaction, whereas larger gaps result in lower work efficiency and reduced employee satisfaction.

2) Job performance

Define performance appraisal as the formal evaluation process within an organization (Erdogan, 2002). It involves collecting information on employee performance through observation and evaluation, providing feedback, and identifying development areas. The validity of performance appraisals can be influenced by social context, including distal variables (e.g., technology, human resource strategy, economic conditions), proximal variables (e.g., rater issues), and structural proximal variables (e.g., multi-source feedback systems) (Chen and Shen, 2017; Wang, 2015; Chen, 2015).

Emphasizes performance appraisal as an organizational communication tool for discussing goals, strategies, values, and vision, translating procedures into performance standards. Integration with the organizational context ensures the process is perceived as reasonable. Rachana highlights the importance of employee acceptance for maximizing results, as unfair appraisals can lead to disappointment and lower performance. (Li, 2011).

Organizations invest in employees to enhance human resource value and gain a competitive advantage. Performance appraisals help identify development needs and improve performance. They provide feedback, recognition, and rewards (Levy *et al.*, 2015). Positive evaluations motivate employees to engage in developmental activities and improve performance.

3) Employee loyalty

Modern enterprises recognize employee loyalty as the emotional attachment, unwavering dedication, and consistent commitment of staff to the organization, unaffected by external factors. It represents the fusion of attitude and behavior loyalty, and in today's society, employee loyalty plays a pivotal role as the primary core competence of businesses. The value brought by employee loyalty can be categorized into four key areas: (i) Enhancing core competitiveness; (ii) Improving employee performance; (iii)

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Reducing staff turnover and associated costs; and (iv) Strengthening team cohesion. Loyalty fosters increased employee dedication, motivating them to wholeheartedly contribute to the company's growth and generate maximum value. In this paper, we use responsibility and intention to leave as the outcome variables for measuring loyalty.

B. Hypothetical

1) The relationship between employee satisfaction and performance appraisal

Satisfaction is the most commonly studied of all the performance appraisal responses. Many studies have shown that as long as the performance appraisal process is fair, even if the results are not in line with their expectations, employees will understand the results of the appraisal in the long term and for the greater good of the company, especially if the appraisal process is fair, and most employees will try to understand the results of the appraisal for their long-term development and the long-term interests of the company.

The division of job satisfaction dimensions has been explored by scholars at home and abroad to varying degrees, and foreign scholars have explored the division of job satisfaction dimensions more deeply in terms of research content. (Smith *et al.*, 1969) classified the dimensions of job satisfaction into five dimensions: satisfaction with the job itself, satisfaction with promotion, satisfaction with pay, satisfaction with leadership, and satisfaction with colleagues. Compared to five-dimensional theory, six-dimensional theory added satisfaction with the work environment and the work team, but not with co-workers. The research conducted by Western scholars shows that they have classified the dimensions of job satisfaction more deeply and carefully. The main scholars include, who classified the dimensions of job satisfaction into two dimensions, three dimensions, five dimensions, and seven dimensions according to the specific situation and the actual situation of the study (Lu and Shi, 2001; Hu, 2003). They divided the dimensions of job satisfaction into two dimensions, namely intrinsic satisfaction, and extrinsic satisfaction. Classified job satisfaction into three dimensions. (Hu, 2003) classified job satisfaction into satisfaction with the job itself, the working relationship, and the work environment. (Chen, 2015) divided the dimensions of job satisfaction into satisfaction with the job itself, satisfaction with the rewards of the job, and satisfaction with the job context. (Lu and Shi, 2001) proposed that the five dimensions of job satisfaction are compared to the three-dimensional theory, with an additional dimension of satisfaction with job motivation and satisfaction with the company management system. Some people divided job satisfaction into seven dimensions, namely satisfaction with oneself, satisfaction with the leader, satisfaction with the job itself, satisfaction with the welfare treatment, satisfaction with the salary and compensation, and satisfaction with the relationship with colleagues, which is the most detailed division of job satisfaction done by domestic scholars (Li, 2011). The analysis of the above literature, combined with the results of interviews with employees, this paper adopts the two dimensions of salary and promotion, which are of most concern to the employees of Company A, as the variables for further research.

The first is the hardware aspect, which generally includes the office conditions of the company, the position of the company, the various office equipment provided in the workplace, the dormitory and the commuter car provided to the employees, etc. The second is the software aspect, which generally includes the leadership style, colleague relationship, remuneration, work pressure, the interaction between the leadership and the employees, the mechanism of the system, etc. The third aspect is personal characteristics, which generally include individual differences, gender differences, education level differences, age differences, income differences, etc.

H1a: Fairness in performance appraisal has a significant positive effect on employee satisfaction.

H1b: Job promotion has a significant positive effect on employee satisfaction.

H1c: There is a significant positive effect of salary satisfaction on employee satisfaction.

2) Employee loyalty and employee performance appraisal

The level of employee loyalty not only reflects the management level of an enterprise, but also has a direct impact on the overall management of the enterprise, but whether it is related to their performance remains to be seen, the level of employee loyalty has an impact on customer satisfaction the level of employee loyalty is also expressed in the work ethic of employees and the working atmosphere of the team. The higher the loyalty of employees, the stronger the sense of responsibility of the employees and the more serious and responsible their attitude towards their work.

H2: Employee loyalty and employee performance are positively correlated.

3) Employee satisfaction and employee loyalty

The relationship between employee satisfaction and loyalty is uncertain. While satisfaction with the company is important, it does not guarantee loyalty. True loyalty is demonstrated through long-term dedication and commitment to the company's growth. Scholars believe that employee satisfaction is a prerequisite for loyalty, but loyalty is not solely dependent on satisfaction. Employee job satisfaction significantly influences organizational loyalty, and improving satisfaction can foster loyalty.

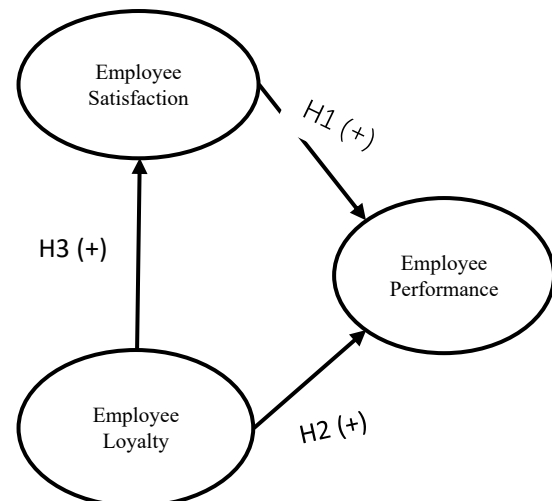


Fig. 1. Conceptual model.

To enhance employee satisfaction and loyalty, some people propose motivational strategies for knowledge-based employees and the “post-80s” core employees, respectively, targeting these specific groups, and discussing loyalty cultivation through environmental, institutional, and developmental strategies. Cultivating loyalty is a long-term process that involves managing employee loyalty from their entry to departure stages. Some scholars abroad have utilized religious humanism and the design of special hospitality attire to enhance employee job satisfaction.

H3: Employee satisfaction and employee loyalty are positively correlated.

All hypotheses are summarized in the conceptual model, as shown in Fig. 1.

III. METHODS

A. Sample and Data Collection

In this paper, a questionnaire survey was conducted using both online (electronic questionnaires) and offline (paper questionnaires) with the current employees of Company B as the research population. A total of 150 questionnaires were sent out for the survey and 146 were collected. Then, after careful screening and sorting of the data, 6 invalid questionnaires were excluded to obtain 140 valid questionnaires, with a valid return rate of 93.3%, including three contents:

- 1) Sense of Fairness in performance appraisal
- 2) Job satisfaction
- 3) Loyalty

B. Confidence Analysis

The main test of confidence is internal consistency (Cronbach's alpha coefficient). According to the statistical criteria, factor analysis can be conducted when the KMO (test statistic) is above 0.6; Cronbach's coefficient is acceptable if it is greater than 0.5, and the factor analysis is most effective when it is greater than 0.9. The higher the alpha coefficient, the more stable the scale. The satisfaction scale was tested and the results showed that $KMO=0.893$ Cronbach's $\alpha=0.952$, indicating that the reliability of the satisfaction scale was good. $KMO=0.924$ and Cronbach's: 0.947 for the Loyalty Scale, indicating that the reliability of the Loyalty Scale is good. Bartlett's sphericity test for both scales showed that the probability of compatibility was less than the significance level of 0.05, therefore the null hypothesis was rejected and the values taken between the indicators were related and the sample was equally suitable for factor analysis.

C. Descriptive Analysis and Correlation Analysis

Descriptive analysis and correlation analysis were conducted on employee satisfaction, loyalty, and its various dimensions. The statistical software SPSS21.0 was used to analyze the mean, standard deviation, and Pearson correlation coefficients of the variables of interest to understand the current situation of employee satisfaction and loyalty in the hotel and the correlation between them.

The descriptive indicators show that: (i) except for the dimension of “working environment”, the mean values of all items are above 3 (the middle value), which means that Staff satisfaction and loyalty are in the middle to the upper level,

while staff satisfaction with the services and conditions of the staff canteen and staff dormitory is low. (ii) The standard deviation coefficients of employee satisfaction, loyalty, and each of their dimensions are large, indicating that there is a wide gap between the values of job satisfaction and loyalty of different employees in the company. (iii) Employees have the highest ratings of professional loyalty. Further correlation analysis of the relationship between the variables.

Note: indicates a significant correlation at the 0.01 level (two-sided). The results in Figs. 3–5 show that (i) there is a significant stop-correlation between the dimensions of employee satisfaction and overall satisfaction ($p<0.01$). The correlation between the dimensions of compensation and benefits and overall satisfaction is the most significant ($r=0.857, p<0.01$); the influence of appraisal and promotion, and interpersonal relationships is also greater. The influence of appraisal and promotion, on interpersonal relationships is also greater. (ii) Hotel staff satisfaction and its dimensions have a significant positive effect on staff T loyalty. The correlation between interpersonal relationships and overall loyalty was the most significant ($r=0.978, p<0.01$). The correlation between interpersonal relationships and professional loyalty was the most significant ($r=0.978, p<0.01$). The most significant correlation was between interpersonal relationships and professional loyalty ($r=0.607, p<0.01$); the most significant correlation was between overall satisfaction and corporate loyalty ($r=0.809, p<0.01$).

D. Correlation and Regression Analyses

1) Correlation analysis

Correlation analysis is generally a statistical analysis method to study the correlation between two or more random variables that are on equal footing. This section focuses on determining the correlation between performance appraisal fairness and each dimension and employee job satisfaction and each dimension through Pearson correlation analysis.

(i) There is a significant correlation between overall performance appraisal fairness and overall employee job satisfaction, with a correlation coefficient of 0.459, which is close to the average.

(ii) There is a significant correlation between the overall sense of fairness in performance appraisal and the sense of fairness in interaction, distribution, and procedure.

2) Regression analysis

The correlation analysis examined the correlation between the perception of fairness in performance appraisal and its dimensions and the job satisfaction of employees and its dimensions. This part used regression analysis to test the effect of the perception of fairness in performance appraisal on the job satisfaction of employees and the effect of the dimensions of fairness in performance appraisal on the job satisfaction of employees to test the proposed research hypothesis. The specific analysis process and results are as follows:

a) Analysis of the effect of the overall sense of fairness in performance appraisal on the overall job satisfaction of employees

Firstly, we analyzed the effect of the overall perception of fairness in performance appraisal on overall employee job satisfaction to test hypothesis H1a/b/c.

From this research, the regression coefficients and standard regression coefficients of overall performance appraisal fairness are 0.816 and 0.459, respectively, with a significant probability of 0.000, which is less than 0.001, thus indicating a significant positive effect of overall performance appraisal fairness on overall employee job satisfaction. the F-statistic is 76.908, with a significant probability of 0.000, which is less than 0.001, further indicating a linear regression relationship between overall performance appraisal fairness and overall employee job satisfaction. There is a linear regression relationship between overall performance appraisal fairness and overall employee job satisfaction. Therefore, hypothesis H: Overall performance appraisal fairness has a positive effect on overall employee job satisfaction is verified.

b) Analysis of performance appraisal on employee loyalty

The regression coefficients and standard regression coefficients for the perception of fairness in performance appraisal interaction are 0.229 and 0.147, respectively, with a significant probability of 0.006, which is less than 0.05. The F-statistic is 32.947, with a significant probability of 0.000, which is less than 0.001, further indicating that the perceptions of fairness in performance appraisal interaction, fairness in performance appraisal distribution, and fairness in the performance appraisal process all have significant positive effects on employee loyalty. There is a linear regression relationship between the sense of fairness of performance appraisal distribution, the sense of fairness of performance appraisal process, and employee satisfaction with promotion. Therefore, hypothesis H2: there is a positive influence of the sense of fairness in performance appraisal on employee loyalty hypothesis

c) Analyzing the impact of employee satisfaction on employee loyalty

The regression analysis reveals that the perception of fairness in performance appraisal interaction has a regression coefficient of 0.087 and a standard regression coefficient of 0.069. However, the significance probability is 0.243, which is greater than the threshold of 0.05. On the other hand, the perception of fairness in performance appraisal distribution has a regression coefficient of 0.202 and a standard regression coefficient of 0.160. The significance probability is 0.006, which is less than 0.05. The F-statistic is 32.947, and the probability of significance is 0.000, indicating a strong linear regression relationship between employee satisfaction and employee loyalty. Thus, hypothesis H3: employee satisfaction has a positive effect on employee loyalty is verified.

IV. DISCUSSION

A. General Discussion of the Results

1) Suggestions for improving the fairness of performance appraisal in Company B

First, from the results of statistical analysis of research variables, it is found that the highest score of fairness in performance appraisal distribution (4.45), the second highest score of fairness in performance appraisal procedure (3.54),

and the lowest score of fairness in performance appraisal interaction (3.17). On the other hand, it is necessary to strengthen communication with employees and give timely answers to employees' doubts about the performance appraisal system, and if we insist on doing so, we can gradually improve employees' sense of fairness in terms of interaction and eventually improve their overall satisfaction.

Secondly, from the results of ANOVA of research variables, it is found that employees' gender, overseas study background, and job title have significant effects on the sense of fairness in performance appraisal distribution, and insignificant effects on the sense of fairness in performance appraisal procedure distribution and the sense of fairness in performance appraisal interaction, which may be due to the low scores of the sense of fairness in performance appraisal procedure and the sense of fairness in performance appraisal interaction and employees' insensitivity, which again indicates that the company should further improve the interaction mechanism and In the performance appraisal management, we should pay attention to the influence of differences in employees' gender, overseas study background and job title.

2) Suggestions for improving employees' job satisfaction and loyalty

Based on the statistical analysis, the employee satisfaction scores were found to be medium to high, with an overall score of 3.83, salary satisfaction at 3.89, and promotion satisfaction at 3.77. These findings are consistent with the insights gathered from employee interviews. In order to further enhance employee satisfaction and foster motivation, it is recommended to provide more opportunities for growth and development.

The regression analysis indicated that fairness in performance appraisal interaction had an insignificant impact on salary satisfaction, but a significant effect on promotion satisfaction. However, the low regression coefficient suggests the need for improvement in this particular area. It is advised to focus on enhancing interpersonal relationships and information fairness by increasing interactions between employees and leaders, as well as ensuring effective dissemination of appraisal information.

The ANOVA results demonstrated significant differences in overall job satisfaction and promotion satisfaction based on factors such as overseas study background, job title, and income brackets. Therefore, it is crucial to implement targeted personnel management strategies, especially for employees with overseas study backgrounds and those holding senior positions. Additionally, attention should be given to employees across different income brackets in order to improve their satisfaction levels. Importantly, there was a significant correlation between promotion and salary satisfaction, highlighting the importance of addressing both aspects regarding salary packages and promotion mechanisms.

B. Research Limitations

Based on existing research on factors influencing employee satisfaction and loyalty and the perception of fairness in performance appraisal, this paper selects Chinese real estate company B as a representative case study. It explores the role of performance appraisal fairness in shaping

employee job satisfaction and investigates the impact of demographic characteristics on job satisfaction and the perception of fairness in performance appraisal. The study applies classical social comparison theory and social exchange theory to the context of state-owned financial companies, expanding our understanding of factors affecting employee job satisfaction and enriching the research on performance appraisal fairness. Furthermore, it provides theoretical support for Company A to enhance fairness in performance appraisal and improve employee job satisfaction.

However, the study acknowledges certain limitations. Firstly, the research sample lacked sufficient diversity. Due to the author's position and capabilities, the focus was primarily on general and middle-level employees, with limited research conducted on top-level leaders. Secondly, the accuracy of research data may have been affected since the study was conducted within the author's own company, where they held the position of head of human resources-talent development. This may have led to colleagues being hesitant to provide certain information. Thirdly, while the reliability and validity of the two scales used for performance appraisal fairness and employee job satisfaction were good, they were adapted from existing scales.

V. CONCLUSION

This study examines the impact of performance appraisal on employee satisfaction and loyalty in Chinese real estate company B. The results support the hypotheses as follows:

A) Performance appraisal fairness has a significant positive effect on employee satisfaction (H1a). The regression analysis shows a coefficient of 0.816, indicating that fairness in performance appraisal significantly influences job satisfaction. This finding suggests that employees in Company B, who joined with clear career goals, value fairness in performance appraisal, leading to higher overall job satisfaction.

B) Job promotion has a significant positive effect on employee satisfaction, with all three dimensions of performance appraisal fairness (procedure, distribution, and interaction) significantly impacting promotion satisfaction. The strongest effect is observed for performance appraisal procedure fairness (coefficient: 0.593), followed by distribution fairness (coefficient: 0.338), and interaction fairness (coefficient: 0.229). To improve promotion satisfaction, the company should focus on enhancing the fairness of the performance appraisal system, including openness, procedure fairness, distribution fairness, and interaction fairness.

C) Salary satisfaction has a significant positive effect on employee satisfaction. Performance appraisal procedure and distribution fairness significantly influence salary satisfaction, while performance appraisal interaction fairness does not. The coefficients for procedure and distribution fairness are 0.210 and 0.202, respectively. This indicates the importance of fairness in the appraisal process and distribution in influencing employees' satisfaction with compensation. The lack of significant effect for interaction fairness may be attributed to limited employee interaction in compensation distribution and information exchange regarding practical interests.

D) Employee loyalty positively impacts employee performance. The survey reveals that highly loyal employees demonstrate greater motivation in their work, including internal collaboration, customer service, and overall performance improvement.

E) Employee satisfaction and loyalty are positively correlated. Employees with high satisfaction exhibit a stronger sense of employment security and are more committed to contributing to the company. They have positive evaluations of the company and management and show a greater interest in their future development within the organization, creating a virtuous cycle

Suggestions for future research, the future to continue to explore the following issues, first, the object of this study is the employees of Company B, the future can be on the specific for the senior leadership of the performance appraisal fairness and job satisfaction to conduct research and examine the impact of performance appraisal fairness on the human resources of different levels of employees, to examine the impact of different levels of human resources on job satisfaction, in order to make the human resources department in the performance appraisal and promote employee job satisfaction to be more relevant. Secondly, the sample selection for this study is based on one company, Company B. Whether the findings are applicable to other similar Chinese real-estate companies and whether they are of general guidance to local real-estate companies needs to be studied in depth by expanding the scope of the research. The fact that local real-estate companies are different from ordinary enterprises will also be the next step to be considered. Thirdly, it has been 30 years since Company B was established in 1992, and real-estate development companies are high-margin enterprises. The company's various businesses tend to be stable and strongly correlated with the market and national policies, and whether there are significant changes in the impact of fairness issues on job satisfaction in subsequent performance appraisals is the focus of our ongoing tracking, research, and study. Future research should consider tailoring or developing scales specific to the unique situations of Chinese real estate companies. Lastly, data processing relied solely on SPSS for variance, correlation, and regression analysis. Despite these limitations, this paper explores the mechanism of the influence of the perception of fairness in employee performance appraisal on job satisfaction in Company B with rigor in the rectification process.

Overall, this study highlights the importance of performance appraisal fairness, job promotion, salary satisfaction, and employee loyalty, and their impact on employee satisfaction and performance. These findings provide valuable insights for companies to enhance employee satisfaction and loyalty.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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