2.1 Human Resource Management

The practice and academic study of HRM has made huge progress over the last century. At the turn of the twentieth century the concept of human resource management had not yet been invented, its practice in industry was highly informal and often inefficient and inequitable, and no organized research or teaching on HRM existed. At the beginning of the twenty-first century, the situation is transformed. Not only has the idea of HRM spread across the world, it is now recognized and practiced as a fundamental part of business, is the subject of academic and practitioner research literature, and has greatly promoted efficient enterprise and more equitable and harmonious employee relations. This is surely quite a positive record.

But the evolution of HRM is not without problem areas and shortcomings. Compared to some other areas of business management, such as finance, marketing, and accounting, HRM has often ranked lower in strategic importance, corporate investment, and professional status. While some companies ‘walk the talk’, view employees as organizational assets, and make HRM a strategic driver of competitive advantage, many others have either significantly scaled back their investment in employees and HRM or continue to practice people management in a largely tactical, administrative, and cost-focused manner. With regard to academic research, this last issue highlights the fact that at any point in time a wide frequency distribution of firms exists ranked by their breadth and depth of HRM practices.

This frequency distribution also varies in systematic ways among countries, depending on their respective histories, business institutions, legal environments, and cultures. A considerable portion of recent academic research on HRM has been focused on the top tier of companies in a small number of countries, leading to an unbalanced and overly ethnocentric and normative (prescriptive) account. But the evidence provided also suggests that the progress of research in other areas is surely in the right direction (Boxall, Purcell, Wright. 2007, p41-42)
2.1.1 Human Resource Management Definition

Some literatures tried to define the meanings of human resource management as mention below:

1) Mathis and Jackson (2003, p4) described that human resource management is the design of formal systems in an organization to ensure effective and efficient use of human talent to accomplish organizational goals.

2) Byars and Rue (2006, p4) described human resource management as an activities designed to provide for and coordinate the human resource of an organization.

Based on the definitions above, human resource management can be concluded as the components formal systems and activities that designed to coordinate human resource of an organization to accomplish organization goals.

2.1.2 Strategic Goals of Human Resource Management

Caliskan (2010, p4) stated that HRM need to achieve its strategic goals in order for the company to gain and sustain competitive advantage. The following strategic goals are:

1. To invest in people through the introduction and encouragement of learning processes designed to increase capability and align skills to organizational needs.

2. To ensure that the organization identifies the knowledge required to meet its goals and satisfy its customers and takes step to acquire and develop its intellectual capital.

3. To define the behaviors required for organizational success and ensure that these behaviors are encouraged, valued and rewarded.

4. To encourage people to engage wholeheartedly in the work they do for the organization.

5. To gain the commitment of people to the organization’s mission and value

2.1.3 Challenges in Human Resources Management

There are some challenges that HR management had to face in today’s environment as described by Mathis and Jackson (2003, p9):
1) Economic and technological challenge. Several economic changes have altered employment and occupational patterns in the United States. A major change is the shift of jobs from manufacturing and agriculture to service industries and telecommunication. This shift has meant that some organizations have reduced the number of their employees with different capabilities that previously needed.

2) Workforce availability and quality. Employers hardly find enough qualified workers for the growing number of “knowledge jobs”. It is required a more skillful employee to answer the needs of organization.

3) Growth in Contingent Workforce. Companies more likely to use contingent workers when the workloads increase. This leads to managing a good strategy to hire a contingent worker rather than regular worker.

4) Demographic and diversity. Today’s workforce is more diverse racially, and women are in the labor force in much greater number than ever before. Human resource management in organization has had to adapt with more variety labor force both externally and internally.

5) Balancing work and family. Balancing the demands of family and work is a significant challenge for human resource management. The increased number of working women and dual-career couples has resulted in greater tension for many workers.

6) Organizational restructuring, mergers/acquisition. Many organizations have restructured in the past few years in order to become more competitive. Also, mergers and acquisitions of firms in the same industries have been made to ensure global competitiveness. One of the challenges for human resource management is dealing with the human consequences of change.
2.2 Performance Appraisal

2.2.1 Performance Appraisal Definition

Longenecker (1997, in Ochoti et al. 2012) describes performance appraisal as the way for organizations to boost employee’s motivation and hone their competitive edge. One of the key measures the employee job performance is using the performance appraisal system. This may help companies to compete with its competitor by relying on the quality of human resources. Another definition of Performance appraisal is defined by Snell & Bohlander (2004, p362) as a process, typically performed annually by a supervisor for a subordinate, designed to help employees understand their roles, objectives, expectations, and performance success. While according to Stephan & Dorfman (1989, in Ishaq, Iqbal, Zaheer, 2009) the outcome of the performance appraisal are improvement in the accuracy of employee performance and establishing relationship between performance on tasks and a clear potential for reward.

Another description about performance appraisal is from Noe, Hollenback, Gerhart, Wright (2008), who stated that performance appraisal is the process through which an organization gets information on how well an employee is doing his or her job. The appraisal system must tell employees specifically about their performance problems and how they can improve their performance. Performance Appraisal is used as the identification, measurement, and management of human performance in organization (Mejia, Balkin, Cardy, 2004). Identification means determining what areas of work the manager should be examining when measuring performance. While measurement is the centerpiece of the appraisal system, entails making managerial judgments of how “good” or “bad” employee performance was. The last is management; it is the overriding goal of any appraisal system.

Performance appraisal is often considered one of the most important human resource management functions (Judge & Ferris, 1993, Cardy & Dobbins, 1994, in Selvarajan & Cloninger, 2011) and an effective performance appraisal and management system is an integral part of organization’s human resource management effectiveness (Guest, 1997 in Selvarajan, Cloninger, 2011).
Byars and Rue (2006) stated when performance appraisal properly conducted, it is not only let employees know how well they are performing but also influence their future level of effort and task direction.

From those literatures it can be concluded that performance appraisal is one of the key of measuring employee’s performance by giving a description about the problems they are facing in their job, to help them more understand their role and task, and also to give them feedback about their performance.

2.2.2 Roles of Performance Appraisal

Organizations generally use performance appraisal in two potentially conflicting roles. Mathis and Jackson (2003) describe the role of performance appraisal as:

1) Administrative uses.
   Performance appraisal is use for the purpose of making pay or other administrative decisions about employees. Performance appraisal system is often links between rewards that employees hope to receive and their productivity. In the figure 2.1, the linkage can be thought of as follows:

   \[ \text{Productivity} \rightarrow \text{Performance Appraisal} \rightarrow \text{Reward} \]

   Where the role of performance appraisal is to measure employee productivity and it is uses to decide the reward for the employee itself.

2) Development uses.
   Performance appraisal can be primary source of information and feedback for employees, which is a key to their future development. In the process of identify strengths, weaknesses, potentials, and training needs through performance appraisal feedback, supervisors can inform employees about their progress, discuss what areas they need to develop, and identify development plans.
2.2.3 Performance Appraisal Methods

Performance can be appraised by a number of methods. These methods help the organization to rate their expected behavior of the employees. An employee’s performance can be compared to the duties spelled out in the job description or it can be compared to the performance or results of others. The various methods are categorized into four groups as described below Mathis and Jackson (2003):

1) **Category Rating Methods.**
   The simplest methods for appraising performance are category rating methods, which require a manager to mark an employee’s level of performance on a specific form divided into categories of performance. The graphic rating scale and checklist are common category rating methods.

2) **Comparative Methods.**
   Comparative methods require that managers directly compare the performance of their employees against one another. For example, a data-entry operator’s performance would be compared with that of other data-entry operators by the computing supervisor. Some of the method usually used is ranking and forced distribution.

3) **Narrative Methods.**
   Managers and HR specialist frequently are required to provide written appraisal information. Documentation and description are the essence of the critical incident, the essay, and the field review methods.

4) **Behavioral/Objectives Methods.**
   Behavioral rating approaches attempt to assess an employee’s behaviors instead of other characteristic. Objectives method specifies the performance goals that an individual and her or his manager agree to try to attain within appropriate length of time.

2.2.4 Performance Appraisal Challenges

According to Ahmad & Bujang (2013, p7) there are several challenges which arise in the practice of performance appraisal activities:
1. The main issue in the practice of performance appraisal activity is the fairness of the evaluation decision. Raters have problems evaluating the performance appraisal in a proper way. Performance of individual employees that is not measured accurately can lead to dissatisfaction with the system.

2. One of the factors that contribute to employee’s dissatisfaction is that raters are not knowledgeable and do not have the required skills. This will affect the process of evaluation because bias, unfairness and unreliability may occur. Although there is a formal evaluation form and a set of standards to be followed, employees seem not to trust the tools of evaluation.

3. There is an issue of subjectivity in the performance evaluation in the public and private sector. Although it is written in black and white to be as objective as possible, however, during the implementation of performance appraisal, the evaluation becomes subjective. The subjectivity of the evaluation discourages employees on supporting the measurement of performance appraisal. Therefore, the objective of the performance appraisal is not achieved.

4. The quota system practiced in certain organization also creates dissatisfaction among employees. Only a small portion of the employees will get salary increment either vertically or diagonally. Therefore, although the employees may perform well, they might not get a reward because it depends on the quota system. This will lead to a decrease in work performance, self-esteem and loyalty to the organization.

5. The appraisal decision nowadays is confronted with a great deal of criticisms and comments from the employees and their unions. There are several issues being put forward such as the raters’ ability, accuracy of the system, fairness, discrimination, quota system and other aspects.

6. Performance appraisal should suit the organization’s culture. Research findings strongly suggest that multinational company’s manager should carefully design the appropriate system for foreign operation based on the different cultural factors of the country.
2.2.5 Performance Appraisal Dimension and Indicator

According to the Longenecker (1997, in Ochoti et al 2012), the dimensions and the indicators of performance appraisal are:

1. Process of The System
   - Provide information about what employee will achieve from their effort
   - Opportunities to decide employee’s training needs

2. Informational Factors
   - Get feedback from supervisor
   - Review from the job process

3. Rater Accuracy
   - Measured by work behavior
   - Measured by work activities

4. Interpersonal Factors
   - Supervisor support the development process of employees
   - Supervisor give trust to the employees to do their job

5. Employee Attitude
   - Opportunity to appeal against their performance ratings
   - Having action plan to deal with any weaknesses

2.3 Employee Development

2.3.1 Employee Development Definition

Employee development describes by Noe, Hollenback, Gerhart, Wright (2008) as the acquisition of knowledge, skill, and behavior that improves employees’ ability to meet changes in job requirements and in client and customer demand. As the Washington Group International example illustrates, employee development is a key contributor to a company’s competitive advantage, helps develop managerial talent, and allows employees to take responsibility for their careers.
While Hameed & Waheed (2011, p1) described that Employee Development means to develop the abilities of an individual employee and organization as a whole, so Employee Development consist of individual or employee and overall growth of the employee as when employees of the organization would develop the organization, organization would be more flourished and the employee performance would increase.

Another definition of Employee development is described by Costen et al (2010) as a process where organization provides opportunities to employees for grow within an organization. This might influence key employee outcomes such as job satisfaction, commitment and intent to stay. Employee development is personal and professional growth of individuals in an organization. Development programs provide employees with skills, knowledge and abilities to prepare them for future jobs. Employee development is the integration of organizational opportunities and supervisor support to facilitate employee in achieving the desired outcomes.

2.3.2 Differences between Training and Development

It is important to note that although training and development are similar, there are important differences between them. Traditionally, training is focused on helping improve employees’ performance in their current jobs. While development helps prepare them for other position in the company and increases their ability to move into jobs that may not yet exist (Noe, 2010, p345). To get more explanation the differences between training in development, in table 2.1 will shows the differences between training and development:

<table>
<thead>
<tr>
<th></th>
<th>Development</th>
<th>Training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>Future</td>
<td>Current</td>
</tr>
<tr>
<td><strong>Use of work experiences</strong></td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>Preparation for changes</td>
<td>Preparation for current job</td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td>Voluntary</td>
<td>Required</td>
</tr>
</tbody>
</table>

Source: Noe, 2010, p347
In table 2.1 describes that training focuses on helping employee’s performance in their current jobs. Development prepares them for other positions in the company and increases their ability to move into jobs that may not yet exist. Development also helps employee prepare for changes in their current jobs that may result from new technology, work design, new customers, or new product markets. Development is especially critical for talent management, particularly for senior manager and employees with leadership potential.

2.3.3 Challenges in Employee Development

As Employee Development depends upon individual employee whether employee is willing to participate or not, Employee Development also depends upon the organization culture, attitude of top management, and limited opportunities of promotion (Elena, 2000; Antonacopoulou, 1996; in Hameed, Waheed 2011).

a. Organization Culture
   If organization culture could support employees, it will encourage employees to participate in decision making then employees would more develop and performance would increase.

b. Attitude of Top Management
   Top Management attitude is another important factors that influences on employee development activities. It depends on the sincerity and commitment of the top management to support employees in development programs.

c. Limited Opportunities of Promotion
   If the opportunitie of promotion are limited then employees would not participate in the employee developmental activities. Otherwise, if there is a bigger opportunities of promotion in developmental activities this will motivate employees to join the programs.

2.3.4 Benefits of Employee Training and Development Program

Jehanzeb and Bashir (2013, p4) divided the benefits of employee training and development program into two groups, Individual Benefits and Organization Benefits.
2.3.4.1 Individual Benefits

1. Career Competencies
   Employees get a lot of benefits from employee training and development program. They learn the soft and technical skills as required by their jobs. Employee development program help employees to survive in the future and develop their abilities to cope with new technologies.

2. Employee Satisfaction
   Companies which are providing the training and development programs for their employees are achieving high level of employee satisfaction and low employee turnover (Wagner, 2000 in Jehanzeb & Bashir (2013)).

3. Employee Performance
   Training and development effects on behavior of employees and their working skill which resulted in enhanced employee performance and further constructive changes (Satterfield and Hughes, 2007). The success or failure of the organization depends on employee performance (Hameed and Waheed, 2011).

2.3.4.2 Organization Benefits

1. Market growth
   Employee development programs are important for any organization to stay solvent and competitive in the market. Though it is expensive for the organization to spend the money on their employees but this investment is positive for the organization to hold the place in the market.

2. Organizational Performance
   Training and development has been defined as mainly contributing factor to the organizational effectiveness (Schuler and MacMillan, 1984). Exploration on this topic recommends that investment in training and development program can be justified by the impact it creates to develop individual and organization effectiveness (Bartel, 2000).

3. Employee Retention
   Several organizations have revealed that one of the characteristic that help to retain employee is to offer them opportunities for improving their learning
Therefore, it has confirmed that there is strong relationship between employee training and development, and employee retention. Companies should realize that experienced employees are important assets and companies have to suffer the challenge for retaining them. Therefore, companies which are providing training and development program to their employees are getting success in retaining them (Garger, 1999).

2.3.5 Employee Development Dimension and Indicator

According to Noe, Hollenback, Gerhart, Wright (2008), the dimension and the indicator of employee development are:

1. Formal Education
   - Off-site programs
   - In-site programs

2. Assessment
   - Provide information and feedback about behavior
   - Provide information and feedback about communication style with others
   - Provide information and feedback about skills

3. Job Experiences
   - Enlarging the current job
   - Job rotation
   - Transfer, promotion, and downward moves
   - Temporary Assignment

4. Interpersonal Relationship
   - Opportunities to give mentoring
   - Opportunities to give coaching
2.4 Job Performance

2.4.1 Job Performance Definition

According to Mathis and Jackson (2003, p339), performance is essentially what an employee does or does not do. Employee performance common to most jobs includes quantity of output, quality of output, timeliness of output, presence of work, and cooperativeness.

According to Byars and Rue (2006, p222) job performance is the net effect of an employee’s effort as modified by abilities and role or task perception. Thus, performance in a given situation can be viewed as resulting from the interrelationships among effort, abilities, and role perceptions.

Meanwhile, according to Murphy (1989, in Boon et al, 2012) job performance can be defined as the set of behaviors that are relevant to the goals of the organization or the organizational unit in which a person work. Therefore the job performance of an individual plays a vital role in organization’s growth.

On the other hand, job performance is considered one of the most important constructs on human resource studies. According to Motowidlo et al (1997, in Boon et al, 2012), the behavior and conduct of an individual can be distinct from his or her job performance over time in the workplace. This is because behavior is what people do while job is the predictable and anticipated organizational value of what people will do. Hence not all actions are categorized as performance and not all actions are able to solve organizational problems.

2.4.2 Types of Performance

2.4.2.1 Task Performance

Task performance covers a person’s contribution to organizational performance, refers to actions that are part of the formal reward system, and addresses the requirements as specified in job description. At a general level, task performance consists of activities that transform materials into the goods and services produced by the organization or to allow for efficient functioning of the organization. Thus, task performance covers the fulfillment of the requirements that are part of the contract between the employer and employee (Sonnentag, Volmer, Spychala. 2010, p2-3)
2.4.2.2 Contextual Performance

Contextual performance consists of behavior that does not directly contribute to organizational performance but supports the organizational, social and psychological environment. Contextual performance is different from task performance as it includes activities that are not formally part of the job description. It indirectly contributes to an organization’s performance by facilitating task performance.

Bormann and Motowidlo (1993, in Sonnentag, Volmer, Spychala. 2010, p2-3) enumerate five categories of contextual performance:

1) Volunteering for activities beyond a person’s job requirements
2) Persistence of enthusiasm and application when needed to complete important task requirement
3) Assistance to others
4) Following rules and prescribed procedures even when it is inconvenient
5) Openly defending organization objectives

2.4.2.3 Adaptive Performance

As a result of extensive literature review and factor analyses, Pulakos et al (2000 in Sonnentag, Volmer, Spychala. 2010, p2-4) presented eight-dimensional of adaptive performance:

1) Handling emergencies or crisis situations
2) Handling work stress
3) Solving problems creatively
4) Dealing with uncertain and unpredictable work situations
5) Learning work tasks, technologies and procedures
6) Demonstrating interpersonal adaptability
7) Demonstrating cultural adaptability
8) Demonstrating physically oriented adaptability
2.4.3 Job Performance Dimension and Indicator

According to Mathis, Jackson (2003, p69) the dimension and the indicator of job performance are:

1. Effort
   - Motivation
   - Work Ethic
   - Attendance
   - Job Design

2. Individual Ability
   - Talents
   - Interests
   - Personality Factors

3. Organizational Support
   - Training and Development
   - Equipment and Technology
   - Performance Standards
   - Management and Co-workers

2.5 Previous Research

This research is based on some previous research that used as a consideration for the analysis. Some of the previous researches are:

1. Research that has been done by Abdul Hameed and Asmer Waheed, 2011 in “Employee Development and Its Affect on Employee Performance, A Conceptual Framework”. This research shown that the success or failure of the organization depends on employee performance. Therefore, organization are investing huge amount of money on employee development. The further discussion develops a proposed model which explains the relationship between employee development variables, and employee performance variables.

2. Another research is by Suhaimi Sudin, 2011, in “Fairness Of and Satisfaction with Performance Appraisal Process”. The review of theoretical and empirical research
appears to indicate that employee perception of fairness and their reaction would normally have chain effect, which most likely to affect the benefits of the system. Organizational justice in performance appraisal is vital in facilitating and enabling performance appraisal to be productive tools for both organization and employee to achieve their goals.

2.6 Theoretical Framework

To make a better understanding about the research that explains the mediating effects of employee development on the relationship between performance appraisal and job performance, it can be shown in the picture below:

**Picture 2.1 Theoretical Framework**

Source: Researcher Theoretical Framework

In this framework shown employee development as moderating variable mediate the relationship between the independent variable which is performance appraisal and the job performance as dependent variable.
2.7 Hypothesis

According to Sugiyono (2007, p51) hypothesis is a provisional answer to the problem formulation research, therefore the problem formulation usually arranged in the form of question. By testing hypotheses and emphasize the expected relationship, it is hoped that a solution could be found to overcome the problems encountered. Test the hypothesis in this study using a 95% confidence level, so that the level of precision or the inaccuracies is $= 5\% = 0.05$. The hypotheses in this study are:

For O-1 the hypothesis is:

**Hypothesis 1**: Performance appraisal related to the job performance

- **H0** – Performance appraisal positively related to the job performance
- **Ha** – Performance appraisal negatively related to the job performance

For O-2 the hypothesis is:

**Hypothesis 2**: Moderating effect of employee development on the relationships between performance appraisal and job performance

- **H0** – Employee development does not moderate the relationship between performance appraisal and job performance
- **Ha** – Employee development moderate the relationship between performance appraisal and job performance