

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In every business, no matter it is a start-up or well-established business, performance of the employee is really important. It is because good employee performance has several benefits such as higher productivity, lower mistakes, higher customer satisfaction, etc. Business owners need to be able to develop a consistent and objective methods in evaluating their employees' performance to maintain the performance.

As maintaining employee performance is really important, managers can apply performance appraisal program in the company. Performance appraisal can be used as a way to examine and evaluate the performance of the employee after they have been selected for the position. The results of the evaluation can then be used in deciding employee's compensation and benefit. Performance appraisal is not only helpful for the company but also for the employees as employees will be able to know about what is expected from them. By using performance appraisal, employees will be able to work effectively based on the company's standard. Moreover, employee can be more motivated to work harder as there might be higher chances of promotion for those who get a positive feedback in the performance appraisal process.

However, many business still avoid in performing performance appraisal in their company eventhough performance appraisal can help the company in many ways. According to Susan M. Heathfield (2018) in "Why Employee Performance Appraisal Doesn't Work", a 2016 Harris Poll revealed that around 69 percent of managers are not comfortable in talking to the employee in the appraisal process as it is the second most dislike

task for a manager after firing the employee. Not only the managers but also the employees feel uncomfortable with the performance appraisal as 37 percent of the employees believe that the process is out-to-date and 42 percent feel that the managers tend to leave some important elements out of their review because of bias (Frederick, 2016).

Thomas Koulopoulos (2018), who is the founder of Delphi Group, stated that 95 percent of the employees are not satisfied with the company's performance appraisal process and 90 percent of those believe that the process does not provide accurate information according to Society of Human Resource Management. Denny (2017) stated that it is difficult to give feedbacks as more than 67 percent of the leaders feel uncomfortable of giving feedbacks to their staffs.

Toko Lima Ribu is a household equipment store which is located at Jalan Hiligoo No.1A, Padang, West Sumatra. Toko Lima Ribu has been established for 13 years and it has 34 employees who works inside and outside the store every day. This business is in its second generation as the owner's son, Mr. Alvin is now in charge of the daily operation while his mother just come back-and-forth to monitor the business. One of the problem related to employee performance at Toko Lima Ribu, Padang based on the interview is that there will be at least one employee who is absent to work each day and their reason will be varied.

Therefore, to understand more about the relationship of performance appraisal towards employee performance, a research will be done in one of the family business which is Toko Lima Ribu, Padang. The result of the research will become the reference for other researchers or companies on how performance appraisal can impact the performance of employee in a business. Therefore, the research title will be **“The Impact of Performance Appraisal Towards Employee Performance in Toko Lima Ribu, Padang”**.

1.2 Problem Limitation

This research focus on investigating the performance appraisal as the factor which will impact the employee performance in Toko Lima Ribu which is located at Jalan Hiligoo No.1A, Padang, West Sumatra. The research will be limited on the Performance Appraisal practice which is performed by the managers and owners in Toko Lima Ribu, Padang as the independent variable and its impact towards the performance of 34 employees in Toko Lima Ribu, Padang as the dependent variables. The data collection will be done from 27-28 March 2019 during the working hours which is 09.00 – 18.00 WIB.

1.3 Problem Formulation

The main problem in this research will be the impact of performance appraisal on the performance of employee as performance appraisal can be used to evaluate and examine employee's performance. Besides that, every company might have their own way of performing performance appraisal. Therefore, from the problem formulation, here are the research questions:

1. Does performance appraisal impact employee performance at Toko Lima Ribu, Padang?
2. What kind of performance appraisal program is the most effective to be used at Toko Lima Ribu, Padang?

1.4 Objective of the Research

The objective of the research will be:

1. To understand whether performance appraisal can impact employee performance in Toko Lima Ribu, Padang.
2. To identify the most suitable performance appraisal program which is the most effective to be used in Toko Lima Ribu, Padang.

1.5 Benefit of the Research

There are two types of benefit from the research of performance appraisal can impact employee performance at Toko Lima Ribu, which are:

1.5.1 Theoretical Benefit

The theoretical benefit of the study is to prove whether performance appraisal will impact employee performance in a business or not. This research is also done to understand more about how can performance appraisal impact employee performance and factors which will affect both variable. Moreover, the other benefits is to gain more knowledge related to the theories about performance appraisal, employee performance, and the relationship of both variables and the actualization of the theories in real life.

1.5.2 Practical Benefit

There is not only theoretical but also practical benefit from this research. The research will provide the owner, manager, and employee of Toko Lima Ribu on how performance appraisal can affect employee performance and its importance in the business. Moreover, this research can also be used for every industry in order to understand more about how can performance appraisal can affect employee performance.

For other family business, this research can be used to understand more about how performance appraisal can influence employee performance and what is the most suitable type of performance appraisal to be chosen in the business. Government can also use this research to understand more about how important performance appraisal is in reviewing their operational systems.

1.6 Systems of Writing

The writing of this research is divided into five chapters. Each chapter is going to be divided into several sub chapters according to the requirement. The systematic outline of writing in this research will be as follow :

Chapter 1 : Introduction

This chapter consists of Background of Study, Problem Limitation, Problem Formulation, Research Objectives, Benefits of the Research, and also Systems of Writing

Chapter 2 : Literature Review and Hypothesis Development

This chapter consists of Theoretical Background, Previous Research, Hypothesis Development, Research Model, and also Framework of Thinking

Chapter 3 : Research Methodology

This chapter consists of Research Design, Population and Sample, Data Collection Method, Operational Variable Definition and Variable Measurement, and Data Analysis Method.

Chapter 4 : Data Analysis and Discussion

This chapter consists of General View of “Research Object”, Data Analysis, Descriptive Statistic, Result of Data Quality Testing, Result of Hypothesis Testing, and Discussion.

Chapter 5 : Conclusion

This chapter consists of Conclusion, Implication, and Recommendation