

# The Influence of Trust In Top Management And Attitudes Toward Appraisal And Merit Systems On Perceived Quality Of Care

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## ABSTRACT

*The purpose of this study is to investigate factors likely to influence employee perceptions of the quality of client care in a mental healthcare setting. Specifically, factors include employee trust in top management, employee cynicism about top management, management communication of appraisal and merit system policies and procedures, employee participation in development of the appraisal system, employee perceived fairness of appraisal and merit system policies and procedures, employee instrumentality beliefs, employee perceptions of accuracy of appraisal content, and employee perceived performance appraisal fairness. The relationship between these factors and perceived quality of client care was assessed in a sample of 190 caseworkers, clinicians, managers, and clerical employees of a medium-sized, not-for-profit mental health organization located in the southeastern United States.*

*Multiple regression analysis was used to generate a partial F-test indicating the unique contribution of each independent variable in explaining perceived quality of client care. Findings indicate that, of the variables identified above, trust in top management, cynicism about*

*top management, management communication of policies and procedures, perceived fairness of policies and procedures, and accuracy of appraisal content each provided a significant unique contribution to explaining perceived quality of client care. Implications, suggestions for future research, and study limitations are discussed.*

## **INTRODUCTION**

Everybody wants high quality health care. Healthcare organizations want to provide the best care possible, patients want to receive the highest quality care possible, and politicians and healthcare clients want to get the best value of care available for their money. However, the limited availability of funds at all levels presents a significant obstacle to providing and obtaining high quality health care (Vuori, 1994). There is a definite need “to create a health care system that maximizes scarce physical, fiscal and human resources” (Huston, 2003, p. 295). One organizational response to the problem of limited resources has been the recent emphasis on maximizing productivity while utilizing shrinking human resources. Health care organizations are turning to the use of financial productivity incentives (e.g., merit pay) to keep employees focused on results (e.g., productivity). Linking compensation to results or productivity is a common practice in industry, but is a relatively recent phenomenon in the health care field and has been the subject of several studies (e.g., Haaf, Volke, & Schliehe, 2004; Holm & Lipsky, 1999; Lyons & Callahan, 1996; Schaffner & Vogt, 2004; Sussman, Fairchild, Coblyn, & Brennan, 2001; Wee et al., 2001)

This study examines the impact that changes in an incentive and reward system and the corresponding appraisal system had on the perceptions of employees in a mental health care organization. These changes to the compensation and appraisal systems were necessitated by revisions and reductions in the Medicaid and Medicare reimbursement process and other funding sources for the organization. The specific purpose of this study is to investigate three factors likely to influence employee perceptions of the quality of client care: 1) employee trust in top management and cynicism about top management, 2) the process of developing a new appraisal and incentive system, and 3) attitudes (e.g., fairness) about outcomes of the new system.

More specifically, the relationship of employee trust in top management, employee cynicism about top management, management communication of appraisal and merit system policies and procedures to the employees by the organization, employee participation in development of the appraisal system, perceived fairness of appraisal and merit system policies and procedures, employee instrumentality beliefs (i.e., the belief that pay is tied to performance), accuracy of performance appraisal content, and perceived performance appraisal fairness to perceived quality of client care is assessed. This research provides a valuable contribution to the limited empirical literature investigating the impact of human resource management practices in general, and financial incentives in particular, on quality of health care.

## **LITERATURE REVIEW AND HYPOTHESES**

Researchers have devoted significant attention and effort to defining and developing an understanding of the concept of trust. One definition of trust is “. . . the willingness of a party to be vulnerable to the actions of another party” (Mayer, Davis, & Schoorman 1995, p. 712). This

approach to trust leads to the realization that positive organizational outcomes (e.g., job satisfaction and organizational commitment) rely on trust between all levels of employees in an organization. “Trust is a basic variable in human interaction and relationships” (Corazzini, 1977, p. 75), and is strongly related to the effectiveness and efficiency of good organizations. Whitener, Brodt, Korsgaard, and Werner (1998) argue that trust perceptions are very important to building trust between management and employees. One of the issues present in the mental healthcare organization utilized for this research was reluctance on the part of employees to trust management to implement changes in a way that would not negatively impact the quality of client care. Thus, trust in top management to implement changes successfully (i.e., maintain the quality of client care with reduced resources) may result in employee perceptions that the quality of client care has suffered. This issue was investigated via the following two hypotheses:

- H1: Employee trust in top management will exhibit a significant unique positive relationship with perceived quality of client care.
- H2: Employee cynicism about top management will exhibit a significant unique negative relationship with perceived quality of client care.

Performance management systems are critical to effective human resource management. Some form of appraisal system is essential to the proper functioning of any type of incentive system and is mandatory in many organizations. “If a smaller number of employees will be expected to accomplish more, then it is critical to use all available tools and techniques for maximizing each employee’s productivity. Effective performance management systems are among the tools for measuring and improving productivity” (Mani, 2002, p. 142). Employee ability to participate in the design and development of organizational systems and policies, especially those that directly impact them, is a critical component of success. Equally important is the communication of these policies and procedures to employees. Successful and progressive organizations have ongoing, two-way communication processes that facilitate discussion and allow issues to be brought to the table rather than be swept under the rug. In the current organization, some employees suggested that communication was not nearly as comprehensive and bi-directional as it needed to be. Therefore, the relationship of communication regarding such policies and procedures, employee participation in appraisal and merit pay system development, and the perceived fairness of appraisal and merit pay policy and procedures to the perceived quality of client care was tested via the following hypotheses:

- H3: Communication of appraisal and merit pay system policies and procedures to employees will exhibit a significant unique positive relationship with perceived quality of client care.
- H4: Employee participation in development of appraisal and merit pay systems will exhibit a significant unique positive relationship with perceived quality of client care.
- H5: Perceived fairness of appraisal standards and appraisal and merit pay policies and procedures will exhibit a significant unique positive relationship with perceived quality of client care.

To the extent performance appraisal systems improve health care employee performance, they are an important tool in fostering quality of client care. Lyons and Callahan (1996) note that appraisal feedback is likely to be more effective in improving performance where it is combined with diagnostic and problem solving activities. The ultimate test of any appraisal and merit system is whether or not it actually improves productivity. An important factor in the impact of financial incentive systems on productivity is employee reactions to the appraisal and merit systems. For example, do employees believe that the tasks on which they are appraised actually reflect what they do on the job? Similarly, do employees perceive their appraisals are fair? Where employees believe the tasks on which they are evaluated are not accurate or that appraisals are unfair, they will be less likely to believe the appraisal and merit systems have a positive impact on quality of client care. Based on this discussion, the following hypotheses were developed:

- H6: Instrumentality beliefs (the belief that pay is tied to performance) will exhibit a significant unique positive relationship with perceived quality of client care.
- H7: Performance appraisal content will exhibit a significant unique positive relationship with perceived quality of client care.
- H8: Perceived performance appraisal fairness will exhibit a significant unique positive relationship with perceived quality of client care.

## **RESEARCH METHODS**

### *Sample*

Questionnaires were distributed to caseworkers, clinicians, managers, and clerical employees of a medium-sized, not-for-profit mental health organization located in the southeastern United States. A cover letter and a self-addressed return envelope were enclosed with each questionnaire. Due to the sensitive nature of the research, respondents were not asked for their names or other identifying information and no effort was made to track respondents. As a consequence, it was not possible to investigate either reasons for nonresponse or whether nonrespondents differed from respondents.

Of the approximately 350 employees eligible to participate in the study, a total of 190 usable questionnaires were received (54.3% overall response rate). With respect to age, 19 respondents (10.1%) were in the 18 to 25 age group, 53 (28.0%) were in the 26 to 30 age group, 29 (15.3%) were in the 31 to 35 age group, 24 (12.7%) were in the 36 to 40 age group, 23 (12.2%) were in the 41 to 45 age group, 21 (11.1%) were in the 46 to 50 age group, and 20 (10.6%) were over 50. Of the 190 respondents, 15 (7.9%) had a high school degree or GED, 31 (16.3%) had some college, 72 (37.9%) had a college degree, and 72 (37.9%) had a master's degree or Ph.D. With respect to tenure, 31 (16.3%) had less than one year tenure, 56 (29.5%) had from one to three years, 37 (19.5%) had from three to five years, 28 (14.7%) had from five to seven years, 13 (6.8%) had from seven to nine years, 10 (5.3%) had from nine to 11 years, and 15 (7.9%) had more than 11 years. One hundred and forty-eight (78.3%) respondents were female and 41 (21.7%) were male.

## *Measures*

*Quality of client care.* Three items were used to assess the perceived impact of the performance appraisal and merit pay systems on the quality of client care. Sample scale items included: “The appraisal and merit pay systems have improved the quality of client care” and “The appraisal and merit pay systems reward quantity rather than quality of client care” (reverse- scored item). The Cronbach  $\alpha$  was .79 for this scale. For this and the remaining attitudinal measures, employees responded using a five-point Likert scale that ranged from 1 (strongly disagree) to 5 (strongly agree). Scale scores for all scales were obtained by taking the average of scale items.

*Trust in top management.* Employee trust in top management was assessed using four items developed by Vest, Scott, Vest, & Markham (2000). Sample scale items included: “I trust top management to treat me fairly” and “I trust top management to follow through with what they say they are going to do.” The Cronbach  $\alpha$  was .82 for this scale.

*Cynicism about top management.* Employee cynicism about top management was measured using three items. Sample scale items included: “Top management at (organization) could fix the problems with the organization if it wanted to” and “Top management at (organization) will take advantage of you if given the chance.” The Cronbach  $\alpha$  was .77 for this scale.

*Communication of appraisal and merit systems policies and procedures.* Management communication of information about performance appraisal and merit pay systems was assessed using four items. Sample scale items included: “(Organization) has clearly explained to me how merit pay increases are determined” and “(Organization) has clearly explained to me how the performance appraisal system works.” The Cronbach  $\alpha$  was .88 for this scale.

*Participation in appraisal and merit system development.* Employee participation in appraisal and merit system development was assessed using two items. Scale items included: “Top management asked for my input in determining the tasks and performance standards used to evaluate my performance” and “Top management asked for my input in determining the policies and procedures used to determine performance appraisals and merit pay increases.” The Cronbach  $\alpha$  was .92 for this scale .

*Policy and standard fairness.* Two items were used to assess the perceived fairness of performance appraisal standards and the policies and procedures used to determine performance appraisal and merit pay increases. Scale items included: “Performance standards used by (organization) to determine my performance appraisal and merit pay increase are fair” and “Policies and procedures used by (organization) to determine my performance appraisal and merit pay increases are fair.” The Cronbach  $\alpha$  was .91 for this scale.

*Instrumentality beliefs.* Instrumentality beliefs, or the belief that pay is tied to performance, was assessed using four items. Sample scale items included: “Merit pay increases at (organization) accurately reflect an individual’s job performance” and “I believe pay is tied to performance at (organization).” The Cronbach  $\alpha$  was .82 for this scale.

*Appraisal content.* The degree to which performance appraisal content accurately evaluates what is actually done on the job was assessed using two items. Scale items included: “The tasks on which my performance is evaluated accurately reflect what I do on my job” and “The tasks on which I am evaluated reflect my contributions to (organization).” The Cronbach  $\alpha$  was .87 for this scale.

*Appraisal fairness.* Perceived fairness of performance appraisals was assessed using three items. Sample scale items included: “My last performance appraisal was fair” and “My last performance appraisal did not fairly reflect my performance on the job” (reverse-scored item). The Cronbach  $\alpha$  was .88 for this scale.

### ***Analysis***

Multiple regression was used to test the proposed hypotheses. Regression was used to generate a partial  $F$ -test indicating the significant unique contribution ( $R^2$  change) of each independent variable (trust, cynicism, communication, participation, policy fairness, instrumentality beliefs, appraisal content, and appraisal fairness) in explaining the dependent variable (quality of client care) while controlling for the presence of the other independent variables. In essence, this approach identifies the unique contribution of each independent variable in explaining the dependent variable. Means, standard deviations, and Pearson's correlations were calculated for all study variables and are presented in Table 1.

## **RESULTS**

Support was found for hypotheses 1, 2, 5, and 7 . Specifically, support was found for a significant unique relationship between perceived quality of client care and employee trust in top management ( $R^2$  change = .025, sig. = .004), employee cynicism about top management ( $R^2$  change = .039, sig. = .000), fairness of appraisal and merit pay systems policies and procedures ( $R^2$  change = .014, sig. = .028), and performance appraisal content ( $R^2$  change = .036, sig. = .001) respectively.

No support was found for hypotheses 4, 6, and 8. More specifically, no support was found for a significant unique relationship between perceived quality of client care and employee participation in appraisal and merit pay system design, employee instrumentality beliefs, and perceived performance appraisal fairness respectively. In addition, no support was found for hypothesis 3. However, communication of appraisal and merit pay systems policies and procedures was found to exhibit a significant unique negative, rather than the hypothesized positive, relationship (Beta = -.341,  $R^2$  change = .097, sig. = .000) with perceived quality of client care. Study findings, suggestions for future research, and limitations are discussed below.

## **DISCUSSION**

Study findings suggest that employees are more likely to believe that appraisal and merit pay systems will improve the quality of care if they trust top management, they are not cynical about top management, they believe appraisal standards and appraisal and merit pay systems policies and procedures are fair, and they believe that the tasks on which they are appraised accurately

reflect what they do on the job. It is important to note that while communication of policies and procedures did exhibit a significant unique relationship with impact on quality of care, it was not in the hypothesized direction.

It was hypothesized (H3) that there would be a significant unique positive relationship between communication and perceived quality of client care, but the relationship found was negative. As perceptions that the organization clearly communicated appraisal and merit pay systems increased, perceptions that the appraisal and merit systems had a positive impact on quality of care decreased. One possible explanation for this finding is that employees felt that the organization clearly communicated policies and standards, but simply did not like what was being communicated as it related to perceived quality of client care. Thus, the relationship between communication and perceived quality of client care may be dependent upon the content of the message.

It is also significant to note that participation in appraisal and merit pay system development did not exhibit a significant unique relationship with perceived quality of client care. Scale items addressing this issue asked whether employees were asked for their input, but did not ask whether employees felt that their input was taken seriously or whether it was utilized in developing appraisal and merit pay systems. One possible explanation for the lack of a unique relationship is that participation is an influence on perceived quality of client care only where employees believe that their input is genuinely solicited and is actually utilized in developing systems. Thus, perceived use of input may moderate the relationship between participation and perceived quality of client care.

Perhaps the most significant finding is the relationship of both employee trust in top management and employee cynicism about top management to perceived quality of client care. Both trust and cynicism exhibited strong relationships with quality of care. Thus, the argument can be made that anything that influences employee trust in top management or employee cynicism about top management also indirectly influences perceived quality of client care through its ability to influence trust or cynicism. This suggests that organizations and their top management should attempt to foster high levels of trust and minimize cynicism in all dealings with employees, not just those that relate to quality of client care. Study findings also suggest that organizations should attempt to ensure that all standards, policies, and procedures related to appraisal and merit pay systems are fair and perceived to be fair. Results further suggest that organizations should ensure that tasks on appraisals accurately reflect what employees do on the job and that performance appraisals should be based on job descriptions that are kept current.

Study findings should be viewed in the context of several potential limitations. First, this study utilizes self-report measures and findings may be affected by common methods variance. Second, while inferences can be made with respect to study findings, research design and method do not allow determination causality. Third, the sample used in this study consisted mainly of female employees in a not-for-profit mental health organization located in the southeastern United States. Future research is needed to establish the generalizability of study findings.

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Table 1

Means, Standard Deviations, and Zero-Order Correlations (Two-Tailed) for Study Variables

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1. Quality of Care	2.44	.86	(.79)								
2. Trust	2.96	.96	.45**	(.90)							
3. Cynicism	3.40	.80	-.44**	-.52**	(.77)						
4. Communication	3.29	.97	-.19**	.28**	-.07	(.88)					
5. Participation	2.44	.98	.20**	.42**	-.26**	.34**	(.92)				
6. Policy Fairness	2.44	1.06	.44**	.47**	-.34**	.10	.32**	(.91)			
7. Instrumentality Beliefs	2.76	.85	.38**	.40**	-.19**	.05	.27**	.53**	(.82)		
8. Appraisal Content	2.82	1.07	.46**	.48**	-.24**	.17*	.35**	.44**	.61**	(.87)	
9. Appraisal Fairness	3.18	1.06	.21**	.31**	-.15*	.05	.20**	.39**	.44**	.44**	(.88)

\*  $p < .05$ ; \*\*  $p < .01$ Note:  $n = 190$ ; Cronbach  $\alpha$  in parentheses along diagonal