

# Performance Appraisal matters a lot for the Employee and the Employer

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## Abstract

Performance appraisal is a process of systematically evaluating performance and providing feedback upon which performance adjustments can be made. 200 questionnaires were distributed of which 150 were received and only 120 questionnaires were fully filled. The objective of the study is to identify the dimensions of individual determinants explaining performance appraisal and to identify the association between the study variables. Multiple Regression analysis results states that the beta weights show that personal factors followed by work performance are absolutely stronger than the target Achievement and Leadership Qualities in explaining performance appraisal changes. Multiple regressions equation is presented below. The hypothesis predicts that there is linear relationship between individual determinants as the independent variables and performance appraisal level as a dependent variable.

**Keywords :** *Performance appraisal, Target Achievement, Work Performance, Leadership Qualities and Personal factors*

## Introduction

### *A global outlook on performance appraisal*

In today's competitive business world, the human resource system is becoming more effective by having a valid and accurate appraisal system used for rating performances of the employees. The history of performance appraisal is quite brief. The formal management procedure in the evaluation of work performance, appraisal dates from the time of the Second World War which is not more than 60 years ago. In a border sense the practice of performance appraisal is a very ancient art. In the scale of things being historical, it might well lay claim to being the world's second oldest profession. The most basic purpose of performance appraisal is to provide information to the employees about their job and the amount of effort and behaviour expected from them. Performance appraisal (PA) systems aim to help, develop individuals, and improve

organizational performance and to develop the basis from which builds a baseline for planning for the future.

The following main purposes:

1. Creation of a shared vision of the organization's objectives, occasionally through a mission statement communicated to all employees.
2. Setting of individual performance targets relating to the operating unit's target within the overall organization.
3. A formal review of progress towards these targets, and/or the identification of training needs.
4. The PA system assessed regularly to evaluate its effectiveness for overall organizational performance.

Coates 1994, McEvoy and Cascio (1990) suggested that employees should be told their duties and they should be told what is expected from them plus effective orientation towards

effective performance. As a result, the intention is to provide employees with an adequate understanding about their job, and encourage employees to work towards their organizational goals. When objectives are set for the employees it becomes simpler for them to attain the desired task.

Performance can be obtained, when a desired goal is given. Locke's (1968) Goal setting theory emphasizes the importance of conscious goal levels as determinants of employee performance. Goal setting theory is summarized as follows- a. hard goals produce a higher level of performance than easy goals, b. some specific hard goals produce higher level of output; c. behavioural intentions regulate choice behaviour.

### ***Meaning of performance appraisal***

Appraisal may be understood as the assessment of an individual's performance in a systematic way, the performance being measured against such factors as job knowledge, quality, and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility, health, and the like. Assessment should not be confined to past performance alone. Potentials of the employee for future performance must also be assessed.

### ***Definitions of performance appraisal***

A formal definition of performance appraisal is: "It is the systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development." A more comprehensive definition is: "Performance appraisal is a formal, structured system of measuring and evaluating an employee's job related behaviors and outcomes to discover how and why the employee is presently performing on the job and how the

employee can perform more effectively in the future so that the employee, organization, and society all benefit. "The second definition includes employee's behavior as part of the assessment. Behavior can be active or passive. Either way behavior affects job results. The other terms used for performance appraisal are: performance rating, employee assessment, employee performance review, personnel appraisal, performance evaluation, employee evaluation, and merit rating. In a formal sense, employee assessment is as old as the concept of management, and in an informal sense, it is probably as old as mankind. Nor performance appraisal is done in isolation. It is linked to job analysis.

### **Terms used in Performance Appraisal**

#### ***Performance Appraisal***

It is the assessment of an individual's performance in a systematic manner in relation to the job assigned.

#### ***Appraisal Process***

It involves various steps need to be taken in order to complete the appraisal work in an orderly manner.

#### ***Ratee***

Ratee may be defined as the individual, work group, division or organization used for appraisal purpose.

#### ***Rater***

Rater is immediate supervisors, specialists from HR department, subordinates, peers, clients or committees to whom the responsibility of appraisal is assigned.

### ***Performance Interview***

After completion of appraisal work, performance interview is arranged. Here, the raters should discuss and review the performance with the ratees, so that they will receive feedback for their information and self development. Also called post appraisal interview.

### **Review of Literature**

Appraisal process is a continuing process for employees. The employees, after they are hired, will be subjected to evaluation process periodically. Employees' current position, improvement, awards and career plans are determined by these evaluation activities. The literature on performance appraisal has evolved from an early emphasis on the person, through the focus on the job and the person. Early performance appraisal methods were fairly simple and involved ranking and comparing individuals with other people (e.g., simple ranking methods) (Milkovich and Boudreau, 1997: 287). However, these early person-based measurement systems often exhibited a number of problems. As a result, a transition to job-related performance assessments has been made. Thus, performance measurement was modified from being person oriented to behavior oriented, the emphasis being on those tasks or behaviors that were associated with a given job (Welbourne, Johnson and Amir, 1998: 543).

Pattarind et al., (1979) highlights that the most adopted style among the respondents and emphasis methods like forcing, problem solving, compromise and avoidance. They studied a total of 52 incidents from the findings it was evident that the majority of the incidents the respondents used the problem solving

method and there was not one bad result. Crosby et al., (1981) emphasis that the third party intervention can succeed if the organizational climate factors are favorable, for such intervention. They have proposed several factors, balance of power, procedures, attitudes towards open disagreements, use of third parties, power of third parties, neutrality of third parties, leader's appraising –resolution style, low the leader receives negative feedback, follow-up, feedback procedures, communication skills and track record. They have given on instrument to measure these factors on a 6-point scale.

Janaki (1982) emphasis on appraising management among personnel executive at BHEL The objective of the study was to conduct opinion study regarding appraising management form the findings it is evident that the majority of the respondents (93%) have agreed to the negotiation style and majority of the respondents are against approach mode of appraising management. Kazsbom (1992) recommended that teams communicate often by: Having frequent and effective upward and downward communication within the organization so that the team has accurate information and feedback from the organization to meet the needs the organization (e.g., scheduling, forecasts, and organization priorities). Having frequent and productive team meetings or status review sessions to increate communication among the various functions of the team and the organization.

Clauddius Cruz (1995) conducted a study among workers at BHEL on appraising management (the objective of the study was to study the appraising management strategies among the workers. It is evident that more than half of the respondents (54%) have agreed to the non-confrontation strategies.

Fisher et al., (1995) recommends five steps to resolve appraising that includes: recognizing the existing appraisal, finding common ground by putting the appraising in the context of the larger of the team and the organization and understanding all the perspective of the issue, this means that everyone is not required to agree with the opposing views. Bens (1997) recommends the following ways a facilitator can encourage a constructive healthy debate: 1. Identify and examine the differences to gain understanding of all perspectives 2. Having a rule that everyone must listen politely 3. Having people paraphrase each other people's ideas 4. Openly address the concerns of the team or the individuals 5. Openly address problem-solving concerns 6. Inviting constructive face-to-face feedback 7. Being assertive as a facilitator 8. Aim to get closure and move on to the next issue.

Tjosvold et al., (1999) found that direct, open discussion of disagreements result in greater understanding of other people's ideas and motivates one to question the accuracy and completeness of one's own view. Open discussion allows people to see the limitations of their own perspective. Thus people are able understand opposing views and different ideas by considering other people's perspectives or ideas. As a result, these people are able to incorporate their own ideas with the best and reliable information from others, which result in higher quality decisions. Sridhar Bindu (2004) in his study on appraising mediation has analyzed on the working trend appraising at the workplace are inevitable and attempts to ignore or repress them through regulations and power only serve to heighten the anger and make the scenario more destructive. As a rule, employees should be encouraged to try and resolve their own problems first before coming to their manager

Katsanis et al., (1996) provide several recommendations on the basis of their research for the development of performance appraisal methods:

- Use qualitative versus quantitative criteria;
- Allow for input when developing performance standards and criteria;
- Make sure the performance appraisal system is not dated;
- Ensure managers take ownership of the performance appraisal system;
- Attempt to eliminate internal boundary spanning by creating direct reporting relationships where possible;
- Utilize performance targeting (Halachmi, 1993) to appraise PMs;
- Be aware and act on environmental forces as they affect the organization.

### ***Process and Methods of Performance Appraisal***

In order to obtain benefits from the appraisal system, managers should give special attention to the design of the appraisal process. In organizations performance appraisal is conducted in a series process. This process can be categorized as follows:

- Establishing Job Criteria and Appraisal Standard. (A decision regarding what to measure)
- Timing of Appraisal. (Determining how often Performance Appraisal will be conducted)
- Selection of Appraisers. (Deciding who will be the appraiser/s)

- Providing Feedback. (Helping employees to see their strengths and weaknesses)

## **Objective of The Study**

The following objectives were formulated.

- To identify the dimensions of individual determinants explaining performance appraisal
- To identify the association between the study variables.

## **Scope of The Study**

- To increase confidence through recognizing strengths while identifying performance needs and to improve weaknesses;
- To improve working relationships and communication between supervisors and subordinates;
- To increase commitment to organizational goals;
- To develop employees into future supervisors;
- To assist in personnel decisions such as promotions or allocating rewards; and allow time for self-reflection, self-appraisal and personal goal setting.

## **Limitation of Study**

- The survey is limited to Chennai region.
- Time and cost is a major limiting factor of the study.
- The sample size of the study was restricted to hundred.

- The bias of the respondents might have led to errors in survey findings

## **Research Methodology**

### *Method of Data Analysis*

After data collection, this study employed following statistical techniques, like correlation, multiple regression for data collection. For the present study primary and secondary data have been collected. Primary data was collected through a questionnaire and secondary data from Journals, Published reports, Books and Professional magazines.

### **Sample Design**

A randomly selected sample from a larger sample or population, giving all the individuals in the sample an equal chance to be chosen. In a simple random sample, individuals are chosen at random and not more than once to prevent a bias that would negatively affect the validity of the result of the experiment. Simple random sampling is the most widely-used probability sampling method, probably because it is easy to implement. An important benefit of simple random sampling is that it allows researchers to use statistical methods to analyze sample results. Simple random sampling technique was adapted to select sample employees. Company employees were selected for the purpose of the study. The total number of questionnaires distributed was 200 of which 150 were received and only 120 questionnaires were fully filled.

### *Measures*

The Employees were requested to indicate their agreement to the statements on a seven point Likert scale that ranged from “strongly disagree” to “strongly agree”

## Data Analysis and Interpretation

Correlation analysis is conducted to study the level at which two variables move or diverge together from one case to the next, and to assess the significance of the connection. This analysis generates a correlation coefficient which explains the extent to which the two variables move together. The correlation coefficient is coded as “r”. The “r” value range is between 0 to  $\pm 1$ . The value of zero (0) indicating that there is no relationship between the two variables. The value of  $\pm 1$  showing that there is a perfect linear relationship between the two variables. A positive value shows that the two variables move together in the same trend, and when the “r” is a negative value, it shows that the variables move in opposite direction or trend. In this research, correlation tests are employed to examine the correlation

Thus correlation tests have been performed among these variables (Target Achievement, Work Performance, Leadership Qualities and Personal factors) in order to establish their relationship levels. Table 8.1 depicts the findings of the correlations between these variables. Besides determining the correlation between variables, the correlation table indicates the statistical significance of the relationship. If a relationship between variables is statistically significant, this signals a good chance of these two variables being related to one another in the population.

### Correlations

		TA	WP	LQ	PF
Pearson Correlation	TARGET ACHIEVEMENT	1.00	0.97	0.95	0.94
	WORK PERFORMANCE	0.97	1.00	0.98	0.97
	LEADERSHIP QUALITIES	0.95	0.98	1.00	0.96
	PERSONAL FACTORS	0.94	0.97	0.96	1.00

Correlation is significant at the 0.01 level (2-tailed).

## Inference

The correlation table shows the correlation with the composite score of all independent and dependent variable where correlated. The main focus of correlation analysis was established the kind of relationship existed between the variable for this and shows the positive correlation in the study.

### Multiple Regression

Regression analysis has been shown to be one of the most appropriate analyses “when one continuous or ratio variable can be identified as an independent variable and a similar variable as the dependent variable,” in that case “regression analysis is the appropriate technique to measure the relationship between them and assess its significance” (Alreck and Settle 1995). More particularly, the greater the number of data points in the scales, the more possible it is that the data will meet the required assumption of a normal distribution when using linear regression. Regression analysis is capable of depicting the relationship vector (direction and degree) involving a single dependent variable (criterion) and a set of independent (predictor) variables. Regression is different to Pearson's correlation coefficients. In Pearson's correlation, the influence of each item will be measured independently from other items. In regression analysis, the relationships' results are formed by a combination of influences of the independent variables on a dependent variable. The degree and direction of influence by independent variables on dependent variables is likely to be established in regression analysis. In regression analysis, each and every variable is assumed to be visible and free from measurement error. Hair et al. (1998) categorise multiple regression into two categories based on its usage: prediction and explanation.

One of the main purposes of regression analysis is to predict the changes on a dependent variable when changes occur in independent variables. As such, multiple regressions meet one of the two objectives suggested by Hair et al. (1998). The first objective of this analysis is to get the most out of the overall predictive power of the independent variables. It is intended to minimise prediction errors by using the least squares criterion for overall efficiency. The second objective is to make assessment on two or more sets of independent variables to determine the strength of the predictive power of each and every variable.

The other purpose of multiple regression analysis is to indicate the degree and direction (positive or negative) of the linear relationship involving independent and dependent variables by establishing the variance of independent variables.

Multiple linear regression analysis is universally recognized to be a potent procedure for controlling variance. By applying an analysis of the variable intercorrelations, the different sources of influence from sets of independent variables are able to be identified and the estimation of the magnitudes can be determined. This explains the strength of influence of independent variables on the dependent variable. One of the advantages of multiple regressions is that it is competent to provide tests relating to the combined effects of independent variables on the dependent variable. Statistical predictions in multiple regression analysis can be calculated by establishing a rectilinear relationship between the independent and dependent variables concerned. A simple straight line equation  $Y=bX+a$  can be established when involving an independent variable and a dependent variable.  $Y$  is referred to as predicted score;  $b$  is the

equation line slope;  $X$  is the value for  $X$  intercept; and  $Y$  is the value for  $Y$  intercept. Multiple regression analysis is a statistical method to explore the influence of sets of independent variables on a dependent variable. Thus the subsequent equation is explained when a set of predictor variables are engaged to predict a criterion variable in multiple regression analysis.

$$Y=a+b_1X_1+b_2X_2+\dots+b_kX_k+e$$

$Y$  is the predicted value on dependent variable;  $a$  is the value at  $Y$  intercept (the value of  $Y$  when it is assumed that all the  $X$  values are 0);  $X$  represents the numbers of the various independent variables; and  $b$  is the coefficients assigned to each of the independent variables during the regression tests.

The impact of performance appraisal on its determinants is analysed. Multiple regression procedure is conducted to understand the relationship between several predictors. Stepwise multiple regression analysis is the most sophisticated. Each variable is entered in sequence and its value assessed. The beta value measures how strongly each predictor variable influences the criterion variable. The beta regression coefficient is computed by assessing the strength of the relationship between each predictor variable to the criterion variable. The standardized beta coefficient gives the contribution of each variable in the model.

In analysing directly a relationship between IVs and a DV, the multiple regression analysis is employed in this study. In this subsection, regression analysis is employed to measure the relationship between independent variables, leadership styles and IM competency as a dependent variable. Regression analysis is conducted to test the degree and the direction of the influence of the independent variables,

leadership styles on the dependent variables, IM competency levels; and a part of it is to gauge the statistical significance of the relationship. Another reason is to produce an equation to describe the value of dependent variables, IM competency level are influenced by independent variables, Leadership styles.

Table Step-wise multiple regression analysis of individual determinants by Performance appraisal

$H_0$ : There is no significant difference in the dimensions of individual determinants as a predictor in explaining performance appraisal.

$H_1$ : There is significant difference in the dimensions of individual determinants as a predictor in explaining performance appraisal.

Variables Entered	R	R2	Adjusted R2	Std. Error of the Estimate	Change Statistics		
					R2 change	F change	Sig F Change
PA	0.48	0.23	0.23	0.57	0.23	154.35	0.000**
PA WP	0.57	0.32	0.32	0.53	0.09	69.37	0.000**
PA WP LQ	0.61	0.37	0.37	0.51	0.05	41.49	0.000**
PA WP LQ TA	0.62	0.39	0.38	0.51	0.01	9.43	0.000**

Dubrin-Watson Value: 1.66,  
Significant at 0.01 levels\*\*  
Significant at 0.05 levels\*

## Dependent Variable

### Performance appraisal

Stepwise multiple regression analysis was performed taking target Achievement, Work Performance, Leadership Qualities and Personal factors as the independent variable and Performance appraisal as the dependent variable. All the dimensions of individual determinants emerged as the significant predictors to Performance appraisal. The Table

shows that 23 per cent of the observed variability in performance appraisal levels is explained by Individual determinants. In addition, the value of the F ratio =16.335 ( $p < 0.001$ ) in Table, indicates that it is safe to accept Hypothesis, that there is significant linear relationship between Individual determinants and Performance appraisal. Thus, the significance (p) value for Individual determinants variables shows that Individual determinants have statistically significant predictive capability on Performance appraisal.

Multiple determination factor R square (Goodness of fit) value is 0.39, F-value of the regression is 79.87 ( $p < 0.01$ ). Factor R of multiple cross-correlation shows high cross correlation, which is acceptance level of 0.01.

### Coefficients and Collinearity Statistics

Model	Constructs	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
4	(Constant)	2.26	0.18	-	12.29	0.00**	-	-
	PA	0.19	0.03	0.29	7.25	0.00**	0.71	1.40
	WP	0.17	0.03	0.24	6.47	0.00**	0.88	1.13
	LQ	0.13	0.02	0.24	6.21	0.00**	0.83	1.19
	TA	0.10	0.03	0.12	3.07	0.00**	0.75	1.34

Significant at 0.01 levels\*\*  
Significant at 0.05 levels\*

### Performance appraisal

The beta weights show that personal factors followed by work performance are absolutely stronger than the target Achievement and Leadership Qualities in explaining performance appraisal changes. Multiple regressions equation is presented below. The hypothesis predicts that there is linear relationship between individual determinants as the independent variables and performance appraisal level as a

dependent variable.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

$Y = \alpha + x_1$  Personal factors +  $x_2$  Work Performance +  $x_3$  Leadership Qualities +  $x_3$  Target Achievement, +  $\epsilon$ .

$$Y = (2.26) + 0.19 + 0.17 + 0.13 + 0.10$$

Where:

$Y_1$  = Performance appraisal

$X_1$  = Personal factors

$X_2$  = Work Performance

$X_3$  = Leadership Qualities

$X_3$  = Target Achievement

$\beta_1, \beta_2, \beta_3, \beta_4$ , = coefficients; and  $e$  = error term

The beta scores signify the positive relationship between each of the predictor variables. Personal factors accounted to 29 percent of the variance, Work Performance accounted to 24 percent of the variance. Leadership Qualities accounted to 24 percent and Target Achievement accounted for 12 percent of the variance.

The collinearity statistics revealed the absence of multicollinearity between independent variable. Relative importance of each variable, Personal factors (0.71), Work Performance (0.88), Leadership Qualities (0.83) and Target Achievement (0.75) having the strongest contribution in exploring the dependent variable. This resulted in the rejection of null hypothesis.

**Table 1 : Showing the promotion decision is based on performance appraisal system**

PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
GREAT EXTENT	28	23.3
SOME EXTENT	41	34.2
NEITHER EXTENT	13	10.8
LITTLE EXTENT	38	31.7
TOTAL	120	100

Source: Primary data

### *Inference*

From the above table, it is inferred that, 23.30 percentage of promotion decision is based on performance appraisal system 34.20Percent reported as to some extent, 10.80Percentage stated neither nor 31.70Percentage reported as to little extent.

### **Conclusion**

Appraisal is understood by the assessment of an individual's performance or individual determinants such as target Achievement, Work Performance, Leadership Qualities and Personal factors in a systematic way, the performance can also being measured against factors such as job knowledge, quality, and quantity of output, initiative, leadership abilities, supervision, dependability, co-operation, judgment, versatility, health, and the like. Assessment should not be confined to past performance alone. Potentials of the employee for future performance must also be assessed. Organisations need some means of ensuring performance standards which is being achieved and objectives are being met. They also need to plan for the future by setting organisational objectives. That should be achieved through personal objectives agreed at the appraisal. This is vital for all employees in order to maintain a competitive position, and it is important that the

method for doing this is successful. All the material in the 'Skills of Appraisal and Performance Review' resource is dedicated to that end. However, underlying the methods, practices and techniques there must be crucial managerial thoughts, attitudes and activities.

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