

“EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL WITH RESPECT TO FAIRNESS AND UTILITY IN SELECT MANUFACTURING COMPANIES IN AND AROUND PUNE”

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INTRODUCTION

An effective performance appraisal system (PAS) is the cornerstone of any good organization. Performance appraisal can be seen as a formal evaluation of an employee's job related performance in order to determine the degree to which the employee is performing his task effectively. The objective of performance appraisal is dual: evaluative and developmental. The evaluative purpose is concerned primarily with looking back at how employees have actually performed over given time period, compared with required standards of performance. The developmental, future-oriented performance appraisal is concerned, for e.g. with the identification of employees' training and development needs and the setting of new targets. (Indeed, yet another goal of performance appraisals may ultimately be to increase performance at the individual and, subsequently, the organizational level (DeNisi & Gonzalez, 2000; Meyer, Kay, & French, 1965).

There are a lot of benefits of having an effective performance appraisal system. For development at the individual level, Performance Appraisal results provide employees with performance feedback (Reid & Levy, 1997; Narcisse & Harcourt, 2008), help define their career development needs (Hempel, 2001; Nickols, 2007) and determine their career paths and goals (Spinks, Wells, & Meche, 2004; Law & Tam, 2008). Performance appraisal can help identify training requirements particularly for new employees (Broady-Preston and Steel, 2002, Seldon et al. (2001), PA strongly relates to training. (Cleveland et al., 1989). So performance appraisal system forms an integral

part of human resource management functions (Dulebohn & Ferris, 1999). Thus rightly administered PA system has a great utility for the individual employee as well as organization.

However the success of Performance Appraisal System (PAS) largely depends on the support and acceptance of the system users (rater and ratee) (Cascio, 1982). As a result, a PAS will not be successful unless concerned people perceive it as a fair and effective system (Ilgen, Fisher, & Taylor, 1979; Murphy & Cleveland, 1991). Quite often superiors and the HR department may feel that the PA system is effective, but the people who are actually going to be affected by the Performance appraisal system think so is an important question of inquiry.

The perceptions of rate regarding the appraisal process are an important variable determining the success and effectiveness of any appraisal system. It is now a widely accepted fact that perceptions of effectiveness and fairness influence the way people think, feel, and act on the job (Bies and Shapiro 1987). Bretz, Milkovich and Read (1992) have also indicated that perceived fairness of the appraisal system has emerged as the most important issue to be faced by managers. Hence, perception of the performance appraisal system would influence performance appraisal satisfaction which is further linked to job satisfaction, job involvement, citizenship behavior, organizational commitment (Adams 1963; McFarlin and Sweeney 1992; Moorman, Niehoff and Organ 1993). Procedures used to appraise performance, and the manner in which performance-related information is communicated play an integral role in shaping employees' satisfaction with appraisal process (Keeping and Levy 2000; Jawahar 2007). Thus perception of employees of PA system is vital variable for studying the effectiveness of PA in an organization.

The present paper which is a part of a larger study on effectiveness of performance appraisal system focuses on employee perceptions of performance appraisal with respect to fairness and utility in select Manufacturing Companies in and around Pune.

METHODOLOGY USED

A study was conducted of 100 employees at the middle level management of manufacturing industries working in capacities of managers, assistant managers, deputy managers and officers. A questionnaire was designed and responses were collected from superiors and subordinates on effectiveness of performance appraisal in select manufacturing companies. The present paper focuses on their perceived fairness of performance appraisal system in the organization. 15 items in the questionnaire measured perceptions of employees regarding performance appraisal defined in terms of fairness, clarity, two way communication, trust, and utility. The questionnaire was based on Likert five point scaling technique. Responses of 100 managers at middle and senior level across various departments in 5 different manufacturing industries were collected. All these companies had a turnover of more than 10 crore. The data was collected with the help of stratified random sampling method.

FOLLOWING WERE THE PARAMETERWISE QUESTIONS WHICH WERE A PART OF THE QUESTIONNAIRE

	CRITERIA/PARAMETERS	STATEMENTS ASKED AS QUESTIONS IN THE QUESTIONNAIRE
A.	Fairness	The performance appraisal system is effectively designed and highlights performance Efforts are made by the boss to be objective in their appraisals Fair treatment received in last performance review The appraisal system has scope for correcting the biases of the reporting officer through a review process
B.	Clarity	The objective of the appraisal system is clarified The appraisal system in the organization provides an opportunity to have a clear understanding of what is expected by the reporting officer during the performance year

	CRITERIA/PARAMETERS	STATEMENTS ASKED AS QUESTIONS IN THE QUESTIONNAIRE
C.	Trust	The appraisal system in organization helps at strengthening appraiser-appraisee relationship through mutual co-operation and trust Performance appraisal system develops a negative perception in the minds of employees thereby creating a feeling of insecurity
D.	Two way communication	The appraisal system encourages open communication between boss and subordinate through performance review and discussion The appraisal system provides an opportunity for a discussion between superior and subordinates on the expectations, achievements, failures, constraints and improvements required The appraisal system provides an opportunity to express requirements for career growth
D.	Utility	Performance appraisal system in your organization aims at systematic talent management process The HR department follows up seriously the training needs identified during appraisals The appraisal data are used by the HR department for other development decisions like job-rotation, job enrichment etc Superior performers are given special rewards

Secondary data were collected from different publications, reports, web sites, magazines, journals, working papers, books and newspapers.

RESULTS AND DISCUSSION

An item wise analysis was done for each respondent and percentage of employees falling into each category of response format (Completely true to Totally false) was calculated.

TABLE 1.1: EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL SYSTEM REGARDING FAIRNESS

FAIRNESS	PERCENTAGE OF EMPLOYEES					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
The performance appraisal system is effectively designed and highlights performance	37	25	22	11	5	100
Efforts are made by the boss to be objective in their appraisals	44	33	15	5	3	100
Fair treatment received in last performance review	42	25	14	13	6	100
The appraisal system has scope for correcting the biases of the reporting officer through a review process	33	26	25	4	12	100
	150	109	76	33	26	
Score	600	327 =927	152	33	0	

Source: Primary Data of Authors Study

The above table shows that overall perceived fairness is less than 75% value which is 1200 ($100 \times 4 = 400 \times 4 = 1600$) 75% of 1600 is 1200. If we look at the item wise analysis, only 59% respondents felt that there was a scope for correcting biases of the ratings of reviewing officer. Also only 37% respondents completely agreed that the appraisal system is designed effectively and highlights performance.

TABLE 1.2 : EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL SYSTEM REGARDING CLARITY

Clarity	Percentage of Employees					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
The objective of the appraisal system is clarified	50	32	10	4	4	100
The appraisal system in the organization provides an opportunity to have a clear understanding of what is expected by the reporting officer during the performance year	52	39	7	0	2	100
The appraisal system encourages subordinates and superior to have a common understanding of the factors affecting each other's performance	47	35	16	1	1	100
	149	106	33	5	7	
	596	318=914	66	5	0	

Source: Primary Data of Authors Study

The above table shows that overall score is greater than 75% value which is 900 ($100 \times 3 = 300 \times 4 = 1200$) 75% of 1200 is 900. Thus respondent perceived clarity in the performance appraisal system. Thus the objectives of the performance appraisal is clear and there is a clear understanding of what is expected from the employees during performance year and there is an understanding of factors affecting the performance.

TABLE 1.3: EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL SYSTEM REGARDING OPEN COMMUNICATION

Open communication	Percentage of Employees					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
The appraisal system encourages open communication between boss and subordinate through performance review and discussion	53	31	11	4	1	100

Open communication	Percentage of Employees					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
The appraisal system provides an opportunity for a discussion between superior and subordinates on the expectations, achievements, failures, constraints and improvements required	55	29	12	0	4	100
The appraisal system provides an opportunity to express requirements for career growth	41	32	16	5	6	100
	149*4=596	92*3=276	39*2=78	9*1=9	11*0=0	

Source: Primary Data of Authors Study

The above table shows that overall score of 872 is slightly less than 75% value which is 900 ($100*3=300*4=1200$) 75% of 1200 is 900. Nearly 84% of the respondents agreed that appraisal system encourages an open communication between the boss and the subordinates through performance review. Only 41% completely agreed that the system provides an opportunity to express their career needs, where as 32% felt that it was mostly true.

TABLE 1.4 : EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL SYSTEM REGARDING TRUST

Trust	Percentage of Employees					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
The appraisal system in organization helps at strengthening appraiser-appraisee relationship through mutual co-operation and trust	43	29	17	5	6	100
Performance appraisal system does not develops a negative perception in the minds of employees thereby creating a feeling of insecurity*	42	16	15	16	11	100
	85*4=340	45*3=135	32*2=64	21*1=21	17*0=0	

The above table shows that overall score of 475 is less than 75% value which is 600 ($100 \times 2 = 200 \times 4 = 800$) 75% of 800 is 600. Only 58% of the employees believe that appraisal system does not develop negative perception and feeling of insecurity, though they feel that appraisal system in organization helps at strengthening appraiser-appraisee relationship through mutual co-operation and trust.

TABLE 1.5: EMPLOYEE PERCEPTIONS OF PERFORMANCE APPRAISAL SYSTEM REGARDING UTILITY

Utility	Percentage of Employees					
	Completely True	Mostly True (75%)	Somewhat True (50%)	Slightly True (25%)	Totally False	Total Employees
Performance appraisal system in your organization aims at systematic talent management process	25	27	30	14	4	100
The HR department follows up seriously the training needs identified during appraisals	20	16	34	14	16	100
The appraisal data are used by the HR department for other development decisions like job-rotation, job enrichment etc	14	16	29	15	26	100
Superior performers are given special rewards	44	19	17	11	9	100
	$103 \times 4 = 412$	$78 \times 3 = 234$	$110 \times 2 = 220$	54	55	

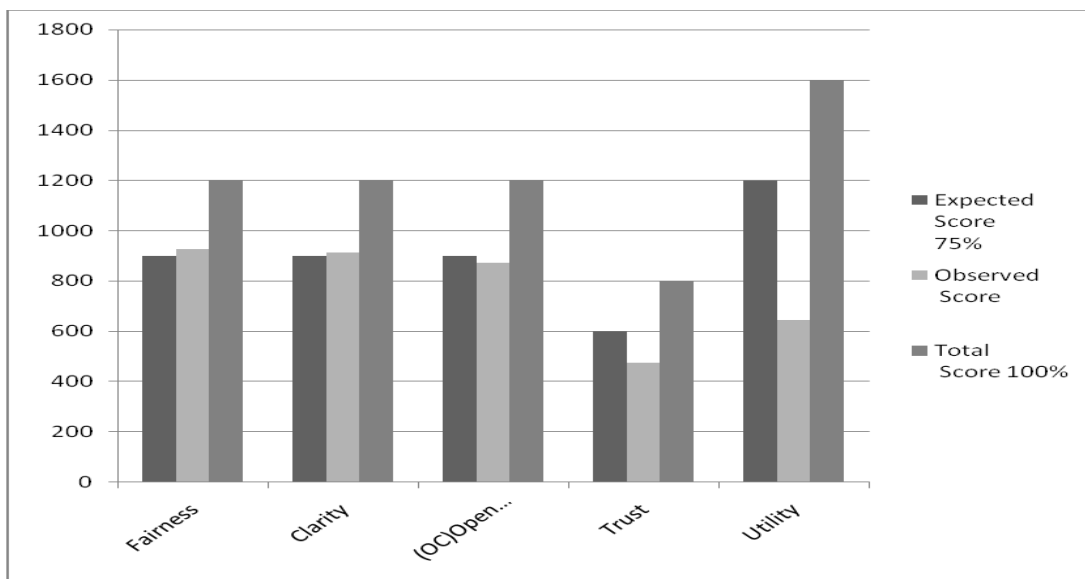
The above table shows that overall score of 646 is very less than 75% value which is 1600 ($100 \times 4 = 400 \times 4 = 1600$) 75% of 1600 is 1200. Thus employees perceive poor utility of performance appraisal data for employee development or HR related decisions. Only 145 employees completely believed that the data was used for job rotation and job enrichment. A total of only 36% believed that HR department took up the training needs identified through appraisals. However 44% were in complete agreement that superior performers did receive special rewards. Only 25% completely agreed that performance appraisal aims at talent management. Thus the utility aspect of PA system is something that organizations need to look at. Thus the performance appraisal system should not be just a routine annual procedure. The result again is line with earlier findings with regards to Asian organizations in which the use of PA is already limited (Cheng & Cascio, 2004).

This study shows that employees perceive the PA system to be fair, clear, but there are gaps in communication, trust and utility of these systems for the betterment of the employees. Hence there could be a negative perception in the minds of the employees about the system leading in feelings of insecurity.

TABLE 1.6 PARAMETER WISE SCORES

Parameter wise Score			
Parameters	Expected Score 75%	Observed Score	Total Score 100%
Fairness	900	927	1200
Clarity	900	914	1200
(OC)Open Communication	900	872	1200
Trust	600	475	800
Utility	1200	646	1600
Total Score	4500	3834	6000

Figure1.1 Parameter wise scores



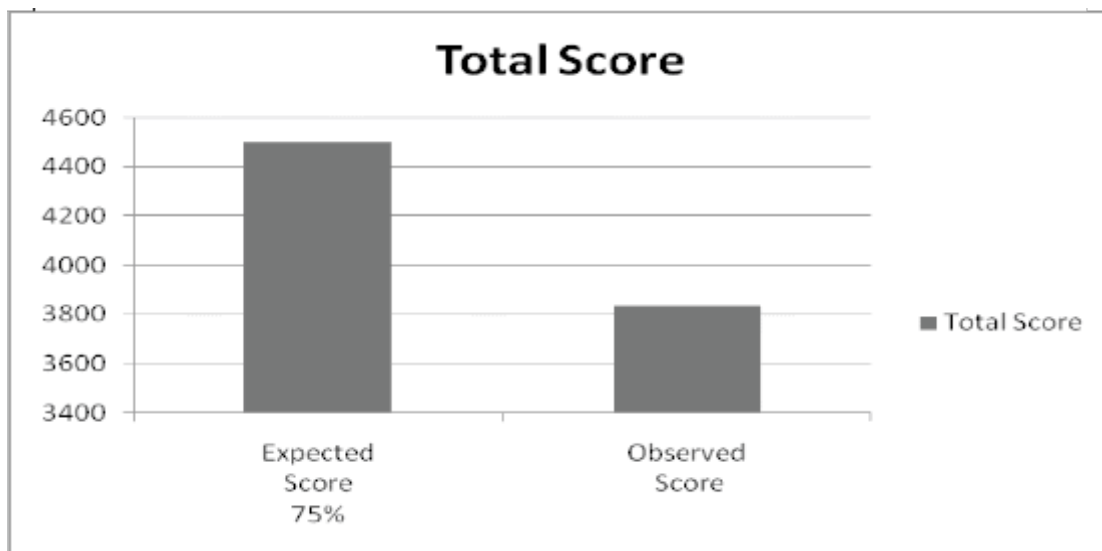
From the above data it is clearly seen that employees' perception with respect to Fairness and Clarity is positive. The aspect of Open communication between the subordinates and the boss needs to improve to a certain extent. The score on the parameter of Trust is seen to be quite low and needs to be handled sensitively. The most important aspect of Utility as one of the parameters is seen to be extremely negative. This indicates that the employees are not satisfied with the usability of the appraisal results. Performance appraisal is failing to achieve its purpose of existence. Employees perceive it to be formality carried out on the part of the management. The objectives of carrying out performance appraisal are not met. This is a serious issue and needs to be paid attention to. A positive

score towards the parameters of fairness and clarity serves very little value when the score of Trust and Utility show a negative response.

TABLE 1.7 TOTAL SCORE ON OVERALL PARAMETERS

Overall Score on all parameters			
Overall Parameters	Expected Score 75%	Observed Score	Total Score 100%
Total Score	4500	3834	6000

Figure 1.2 Comparison of overall Observed score and Expected total score



The above data clearly shows the perception of the employees with respect to performance appraisal. The observed score is way below the expected score. Employees' perception of performance appraisal is not very favorable.

This indicates that the companies should pay due attention to this important function of management and achieve the purpose for the existence of performance appraisal. Companies should not consider it as a formality which or a tick mark activity which needs to be completed every year.

SUMMARY AND CONCLUSIONS

This paper examined the opinion of managers or their perceptions about performance appraisals in some select manufacturing industries. It leads to understanding their perception- negative or positive towards the parameters of fairness, clarity, open communication, trust and utility of performance appraisal systems in the industries.

On the basis of the above study, one can conclude that employees have a positive perception of performance appraisal with respect to fairness and clarity but their needs to be improvement in the communication between the boss and the subordinates.

With respect to the parameter of trust, he score is observed to be distinguishably less than expected. This indicates

the employees are not very comfortable with the system of performance appraisal followed in their companies.

An alarming difference in the expected and observed score is seen for the parameter of utility. The observed score is very less than the expected score. This indicates that the purpose of performance appraisal is not served. It is not able to do justice at systematic talent management. It is seen that the HR department does not follow up seriously the training needs identified during the appraisal. HR department does not take decisions of job-rotation, job enrichment etc with the help of results of performance appraisal. Moreover, it is also seen that the superior performers are not given their due with adequate and appropriate rewards.

LIMITATIONS AND FUTURE DIRECTIONS

This was an exploratory study and focused only on manufacturing industries having a turnover of above 10crores in and around Pune.

Future research can replicate this study in other sectors within or outside the city of Pune. Also the sample size was relatively small. For future research directions following suggestions are made.

The perception of assessors' (boss) about performance appraisals system followed in the industries.

Impact of performance appraisal on outcomes other than individual performance.

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