

Relationship Between Appraisal And Organizational Performance

* *R. Indradevi*

INTRODUCTION

In the world of globalization, there is a lot of competition in the market. Furthermore, there is a lot of competition among different organizations, among organizations having similar products, and also within one organization. The overall success of each and every organization depends upon the quality of its employees. It is a duty of every organization to motivate the employees and influence the behavior of the employees through the performance appraisal system. Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee. The focus of performance appraisal is measuring and improving the actual performance of the employee and also the future potential of the employee. The purpose of the performance management system is to ensure that the work performed by employees is in accordance with the established objectives of the organization. Employees should have a clear understanding of the quality and quantity of the work expected from them. The employee should receive information about how effectively they are standing with respect to the expected standard. An effective performance management system for employees should be in place in an organization, as it identifies, encourages and facilitates employee development, and also resolves performance pay disputes.

Performance appraisal is a powerful tool to calibrate, refine and reward the performance of the employees. It helps to analyze his/her contribution towards the achievement of the overall organizational goals. Performance appraisal is a formal system that evaluates the quality of employee performance. In simple terms; appraisal may be measured against a number of factors such as job knowledge, quality of output, initiative leadership abilities, supervision dependability, cooperation, judgment, versatility, and health, etc.

LITERATURE REVIEW

Stathakopoulos (1997) examined the effect of performance appraisal on the behavioural and psychological responses of marketing professionals. The result of the study indicated that employees never ignore the comments on their performance and agreed that performance appraisal system was useful and helpful in improving their performance. The author finally commented that performance appraisal of individuals enhanced the performance of the organization.

Khandekar and Sharma (2005) established the linkages between Human Resource Capability (HRC) and firm performance in Indian global companies. They had defined HR capabilities as the routines entrenched in the tacit and implicit knowledge of members of an organization to obtain, develop, foster, organize, and re-organize human resources through HRM practices in a competitive environment. It was identified that HRD practices like HR planning, performance measurements, training and development, rewards and career planning enhanced HR capabilities. This study provided statistical evidences that investment in HR capabilities of the firm for development of knowledge base, desired skills, and attitudes resulted in higher firm performance.

De Nisi and Pritchard (2006) emphasized that performance improvement is dependent upon sound HR practices, fair appraisal practices, effective performance management, and an awareness of an organization's overall strategic goals. More frequent appraisals and feedback helped employees identify their improvement. The study further suggested that performance feedback should include information on how to improve performance, along with information about what areas of performance need improvement.

Kuvaas (2006) explored the relationship between performance appraisal satisfaction and employee outcomes. The study found that there was a direct relationship between performance appraisal satisfaction and work commitment

*Associate Professor, VIT – Business School, VIT University, Vellore – 632 014, Tamil Nadu.
E-mail : indrabalu@hotmail.com

and turnover intention, while the relationship between satisfaction with performance appraisal and work performance was mediated by intrinsic motivation. This study also supported the opinion that performance appraisal satisfaction enhanced motivation, commitment and intention to stay.

Abu-Doleh and Weir (2007) explored the attitudes of human-resource managers working in the Jordanian private and public organizations towards the function and implementation of their performance appraisal systems. The research identified that performance appraisal systems had a moderate impact on the four functions of performance appraisal systems. Those functions were grouped as: **(1)** Between-individuals comparisons; **(2)** Within-individuals comparisons; **(3)** Systems maintenance; and **(4)** Documentation. The study revealed that private organizations' performance appraisal had a significantly greater impact on promotion, retention/termination, lay-offs, identifying individual training needs, transfers and assignments.

Youngcourt et al., (2007) identified relationships between the perceived purposes of performance appraisal with several attitudinal outcomes, including satisfaction with the performance appraisal, job satisfaction, affective commitment, and role ambiguity.

Sudarsan (2009) investigated the use of Management By Objectives (MBO) and Key Result Areas (KRAs) as a basis for performance evaluation. It was found that almost all organizations used work achievements, and a significant number used MBO approach as well. The study recommended organizations to measure the performance of their employees in terms of outcome and not in terms of organization objectives.

OBJECTIVES OF THE STUDY

The present study seeks to answer the following questions:

- ❁ To describe the demographic characteristics of the study participants;
- ❁ To study the impact of performance appraisal and employee capability;
- ❁ To analyze the relationship appraisal and improved organizational performance;
- ❁ To learn the impact of employee capability on organizational performance.

METHODOLOGY

❁ **Sample :** The Primary data was collected from the respondents by using a questionnaire with 23 items. A sample of 125 respondents from 5 IT enabled companies in Chennai constituted as the sampling unit for the study. Convenient sampling technique was adopted to collect the data.

MEASURES

❁ **Independent Variable – Performance Appraisal :** Nine items on performance appraisal like setting inspirational goals, holding higher expectations, creating self-determination, expressing confidence, strengthening the commitment of employees, providing autonomy and improving performance were taken from the studies of Smith and Rupp (2003), DeNisi and Pritchard (2006), Kuvaas (2006), Abu-Doleh and Weir (2007), and Ridley (2007).

❁ **Dependent Variable 1 – Organizational Performance :** To measure the dependent variable perceived organizational performance, the researcher used perceptual measures. Seven items that measured organizational performance on a five point likert scale ranging from Excellent (5) to Worst (1) made by Delaney and Huselid (1996) were adopted for the present study.

❁ **Dependent Variable 2 – Employee Capability :** Khandekar and Sharma (2005) established the linkages between Human Resource Capability and firm performance in Indian global companies. In this study, individual capability or

Table 1: Scale Reliability	
Reliability Coefficients	
N of Cases = 125	N of Items = 23
Alpha = .8696	

employee capability was measured by leadership capability, employee engagement, workforce performance, adaptable workforce, adherence to change, talent management and human capital efficiency on a five point Likert scale ranging from Always (5) to Never (1). The reliability of the research instrument in this study was determined by carrying out a reliability test. The reliability value (Cronbach alpha : 0.8696) of the scale is presented in the Table 1, which is closer to 1 and indicates a high level of reliability of the instrument.

DATA ANALYSIS AND INTERPRETATION

❖ **Descriptive Statistics :** The sample represented varied range of respondents representing the diversity of the total population. The demographic variables like age, sex, marital status and experience of the employees were included for data collection. Table 2 presents the frequency distribution of the respondents on each of the demographic variables.

Demographic Variables	Frequency	Percent [%]
Gender		
Male	87	69.6
Female	38	30.4
Experience (years)		
1 - 3 years	56	44.8
4 - 6 years	30	24
7 - 10 Years	22	17.6
11 - 13 Years	13	10.4
14 - 16 Years	4	3.2
Age group (years)		
21-25 years	48	38.4
26-30 years	28	22.4
31-35 years	29	23.2
36-40 years	17	13.6
> 40 years	3	2.4
Marital Status		
Married	54	43.2
Single	71	56.8

REGRESSION ANALYSIS

❖ **Impact Of Performance Appraisal On Employee Capability :** A multiple regression model for predicting employee capability was developed with appraisal as the predicting variable. The factors influencing employee capability are expected to have a positive magnitude, and the theoretical expectation is portrayed in the model with positive contribution by the various factors. The proposed hypothesis is as follows :

❖ **H₀₁ : Employee Capability is not predicted by performance appraisal.**

Employee Capability :

$$Y_1a = b_1a + b_1a_1 x_1$$

Where,

x_1 – performance appraisal;

b_1a_1 – Regression Coefficient;

b_1a – Regression constant

❖ **Model Summary (F)** : The coefficient of determination (Table 3), R^2 was compared to determine percentage variation in the dependent variable. F value was to compute the significance of R^2 with F-distribution at 5% level of significance. The model is found fit on significance (.000) of independent variable, proving that employee capability depends on performance appraisal. Hence, the hypothesis H_{01} is rejected. The prediction ability of the model is expressed by R square, which was .601 whereby 60% (Table 3) of the variance in employee capability was explained by performance appraisal, with F-value 635.182 (Table 4) at .000 level of significance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775(a)	.601	.600	.25339

a Predictors: (Constant), performance appraisal

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	40.783	1	40.783	635.182	.000(a)
	Residual	27.095	422	.064		
	Total	67.879	423			

a Predictors: (Constant), performance appraisal
b Dependent Variable: Employee capability

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		aB	Std. Error	Beta		
1	(Constant)	1.238	.112		11.085	.000
	Performance Appraisal	.700	.028	.775	25.203	.000

a Dependent Variable: Employee capability

In predicting employee capability with performance appraisal as the predicting variable, it was found that ($\beta=0.700$, $t = 25.203$) (Table 5) for every unit of increase in performance appraisal, 72% increase in employee capability is predicted.

RELATIONSHIP BETWEEN APPRAISAL AND ORGANIZATIONAL PERFORMANCE

A multiple regression model for predicting the impact of performance appraisal on the performance of the organization was measured with the hypothesis that each of the predictor would have a differing predictionability on job performance.

Hence, the following hypothesis and regression model is proposed.

❖ H_{02} : **Organizational performance is not predicted by performance appraisal.**

Organizational performance:

$$Y_1b = b_1b + b_1b_1 x_1$$

Where,

x_1 – performance appraisal;

b_1b_1 – Regression Coefficient;

b_1b – Regression constant

❖ **Model Summary (F)** : The coefficient of determination (Table 6), R^2 was compared to determine the percentage variation in the dependent variable. F value was to compute the significance of R^2 with F-distribution at 5% level of significance. The model is found fit on significance (.000) of the independent variable, proving that organizational performance depends on performance appraisal. Hence the null hypothesis H_{02} is rejected.

The prediction ability of the model is expressed by R square, which was .414 whereby 41% (Table 6) of the variance in organizational performance was performance appraisal, with F value 298.045 (Table 7) at .000 level of significance.

Table 6 : Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.643(a)	.414	.413	.37974
a Predictors: (Constant), performance appraisal				

Table 7 : ANOVA(b)						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.980	1	42.980	298.045	.000(a)
	Residual	60.855	122	.144		
	Total	103.834	124			
a Predictors: (Constant), performance appraisal						
b Dependent Variable: Organization Performance						

Table 8 : Coefficients(a)						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.237	.167		7.393	.000
	Performance Appraisal	.718	.042	.643	17.264	.000
a Dependent Variable: Organization Performance						

In predicting the performance of the organization, with performance appraisal as the predicting variable, it is found that ($\beta = 0.718$, $t = 17.284$) (Table 8) for every unit of increase in performance appraisal, 72% increase in organizational performance is predicted.

IMPACT OF EMPLOYEE'S CAPABILITY ON ORGANIZATIONAL PERFORMANCE

A multiple regression model for organizational performance was developed with employee capability as the predicting variable. The factors influencing organizational performance is expected to have a positive magnitude and the theoretical expectation is portrayed in the model with positive contribution by the various factors. The proposed hypothesis is :

❖ H_{03} : **Organizational performance is not predicted by employee capability.**

The proposed regression model is given below:

$$Y_1c \text{ Organizational performance} = b_1c + b_1c_1 x_1$$

Where,

x_1 – employee capability;

b_1c_1 – Regression Coefficient;

b_1c – Regression constant

❖ **Model Summary (F)** : The coefficient of determination (Table 9), R^2 was compared to determine percentage variation in the dependent variable. F value was to compute the significance of R^2 with F-distribution at 5% level of significance. The model is found fit on significance (.000) of independent variable, proving that perceived organizational performance depends on employee capability. The prediction ability of the model is expressed by R square, which was .466, whereby 47% (Table 9) of the variance in perceived organizational performance was explained by employee capability with F-value 367.997 (Table 10) at .000 level of significance and hence, *the hypothesis H_{03} is rejected.*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.683	0.466	0.465	0.36254

a. Predictors: (Constant), employee capability

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	48.368	1	48.368	367.997	0.000
	Residual	55.466	123	0.131		
	Total	103.834	124			

a. Predictors: (Constant), employee capability
b. Dependent Variable: organization performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.699	0.179		3.914	0.000
	Employee Capability	0.843	0.044	0.683	19.183	0.000

a. Dependent Variable: organization performance

In predicting the performance of the organization with employee capability as the predicting variable, it was found that ($\beta=0.843$, $t= 19.183$) (Table 11) for every unit of increase in employee capability, 84% increase in organizational performance is predicted.

FINDINGS

This study has identified a strong positive correlation between performance appraisal and employee capability and organizational performance. It is also clear that employee capability and organizational performance are predicted by the performance appraisal. Hence, it is understood that performance appraisal plays a major role in the development of the workforce of the organization and retaining them in the organization and also, performance appraisal aids in improved organizational performance by motivating the employees and by solving all work-related issues of the employees. It is understood that many companies have integrated appraisal systems in their organizations and have made it a part of their policies. Employee appraisal helps and guides employees to understand where they stand and what is the expectation of the organization and an appraisal motivates them to fill the gap between the standard set and the actual performance.

REFERENCES

1) Abu-Doleh, J. and David Weir, D (2007). 'Dimensions Of Performance Appraisal Systems In Jordanian Private And Public Organizations.' *The International Journal of Human Resource Management*, Volume 18, Issue 1, pp. 75 - 84.

- 2) DeNisi, A.S and Pritchard, R.D. (2006). 'Improving Individual Performance: A Motivational Framework.' *Management and Organization Review*, Volume 2, pp. 253-277.
- 3) Delaney, J. T., and Huselid, M.A. (1996) . 'The Impact Of Human Resource Management Practices On Performance In For-Profit And Nonprofit Organizations.' *Academy of Management Journal*, Volume 39, Issue 4, pp. 949-969.
- 4) Khandekar, A. and Sharma, A. (2005b). 'Organizational Learning In Indian Organizations: A Strategic HRM Perspective.' *Journal of Small Business and Enterprise Development*, Volume 12, Number 2, pp. 211-226.
- 5) Kuvaas, B. (2006) . 'Performance Appraisal Satisfaction And Employee Outcomes: Mediating And Moderating Roles Of Work Motivation.' *The International Journal of Human Resource Management*, Volume 17, Issue 3, pp. 504 - 522.
- 6) Ridley, S.E (2007) . 'Selecting Job Elements To Rate In Performance Appraisals: The Human Factors Approach.' *Performance Improvement*, Volume 46, Issue 5, pp. 30 - 35.
- 7) Smith, A.D and Rupp, W.T (2003). 'Knowledge Workers: Exploring The Link Among Performance Rating, Pay And Motivational Aspects.' *Journal of Knowledge Management*, Volume 7, Issue 1, pp.107 - 124.
- 8) Stathakopoulos, V. (1997) . 'Effects Of Performance Appraisal Systems On Marketing Managers.' *Journal of Marketing Management*, Volume 13, Issue 8, pp. 835- 852.
- 9) Sudarsan, A. (2009). 'Performance Appraisal Criteria: A Survey Of Indian Organizations.' *International Journal of Indian Culture and Business Management*, Volume 2, Issue 4, pp.373 - 391.
- 10) Youngcourt et al., (2007) . 'Perceived Purposes Of Performance Appraisal: Correlates Of Individual- And Position-Focused Purposes On Attitudinal Outcomes.' *Human Resource Development Quarterly*, Volume 18, Issue 3, pp. 315 - 343.